



**Auditor of State  
Betty Montgomery**



ALLEN COUNTY EDUCATIONAL SERVICE CENTER

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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, 2003 and 2002. 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 (B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. 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 Educational Service Center, as of June 30, 2003 and 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, 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 November 25, 2003, 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.

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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.

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

**Betty Montgomery**  
Auditor of State

November 25, 2003

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Intergovernmental Receipts	\$1,361,647	\$408,085	\$50,000	\$1,819,732
Interest	10,990			10,990
Tuition and Fees	526,620	13,895		540,515
Extracurricular Activities	204			204
Charges for Services	3,279,440			3,279,440
Other	<u>25,948</u>	<u>33,985</u>		<u>59,933</u>
Total Cash Receipts	<u>5,204,849</u>	<u>455,965</u>	<u>50,000</u>	<u>5,710,814</u>
<b>Cash Disbursements:</b>				
Current:				
Instruction				
Regular	171,817	92,420	6,375	270,612
Special	2,943,119			2,943,119
Support Services				
Pupils	1,231,909			1,231,909
Instructional Staff	714,309	270,713		985,022
Board of Education	7,185			7,185
Administration	337,859	340		338,199
Fiscal	76,338			76,338
Business	1,374			1,374
Operation and Maintenance of Plant	10,546			10,546
Pupil Transportation	0	104,668		104,668
Central	0	1,259		1,259
Operation of Non-Instructional Services	<u>146</u>			<u>146</u>
Total Cash Disbursements	<u>5,494,602</u>	<u>469,400</u>	<u>6,375</u>	<u>5,970,377</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(289,753)	(13,435)	43,625	(259,563)
<b>Other Financing Sources:</b>				
Refund of Prior Year Expenditures	<u>2,642</u>	<u>10,185</u>		<u>12,827</u>
Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements	(287,111)	(3,250)	43,625	(246,736)
Fund Cash Balances at Beginning of Year	<u>763,903</u>	<u>189,349</u>	<u>3,297</u>	<u>956,549</u>
<b>Fund Cash Balances at End of Year</b>	<u><u>\$476,792</u></u>	<u><u>\$186,099</u></u>	<u><u>\$46,922</u></u>	<u><u>\$709,813</u></u>

*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 YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Internal Service</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Other Miscellaneous	\$3,200		\$3,200
<b>Operating Cash Disbursements:</b>			
Salaries	180	2,000	2,180
Fringe Benefits	25	477	502
Purchased Services	1,169	844,315	845,484
Materials and Supplies	314	5,825	6,139
Other	621	11,151,831	11,152,452
Total Operating Cash Disbursements	2,309	12,004,448	12,006,757
Operating Income/(Loss)	891	(12,004,448)	(12,003,557)
<b>Non-Operating Cash Receipts:</b>			
Earnings on Investments		38,794	38,794
Refund of Prior Year Expenditures		282,310	282,310
Other Miscellenous		14,681,442	14,681,442
Total Non-Operating Cash Receipts		15,002,546	15,002,546
Net Receipts Over/(Under) Disbursements	891	2,998,098	2,998,989
Fund Cash Balances at Beginning of Year	44	1,454,780	1,454,824
<b>Fund Cash Balances at End of Year</b>	<b>\$935</b>	<b>\$4,452,878</b>	<b>\$4,453,813</b>

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



**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fund Types/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable/ (Unfavorable)</b>
<b>Governmental:</b>			
General Fund	\$5,165,549	\$5,207,491	\$41,942
Special Revenue Funds	187,273	466,150	278,877
Capital Project Funds	50,000	50,000	
<b>Proprietary:</b>			
Internal Service Fund	1,500	3,200	1,700
<b>Fiduciary:</b>			
Agency Funds	17,152,003	15,002,546	(2,149,457)
Total (Memorandum Only)	<u>\$22,556,325</u>	<u>\$20,729,387</u>	<u>(\$1,826,938)</u>

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

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	<u>Prior Year Carryover Appropriations</u>	<u>2003 Appropriations</u>	<u>Total</u>
<b>Governmental:</b>			
General Fund	\$25,655	\$6,567,197	\$6,592,852
Special Revenue Funds	61,347	587,769	649,116
Capital Project Funds		53,297	53,297
<b>Proprietary:</b>			
Internal Service Fund		3,645	3,645
<b>Fiduciary:</b>			
Agency Funds	18,866	18,820,801	18,839,667
Total (Memorandum Only)	<u>\$105,868</u>	<u>\$26,032,709</u>	<u>\$26,138,577</u>

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

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$5,494,602	\$94,966	\$5,589,568	\$1,003,284
469,400	24,038	493,438	155,678
6,375	21,760	28,135	25,162
2,309	80	2,389	1,256
12,004,448	32,434	12,036,882	6,802,785
<u>\$17,977,134</u>	<u>\$173,278</u>	<u>\$18,150,412</u>	<u>\$7,988,165</u>

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**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Intergovernmental Receipts	\$1,328,631	\$283,398	\$3,297	\$1,615,326
Interest	29,091			29,091
Tuition and Fees	530,288	15,995		546,283
Extracurricular Activities	153			153
Charges for Services	2,562,034			2,562,034
Other	5,999	39,574		45,573
	<u>4,456,196</u>	<u>338,967</u>	<u>3,297</u>	<u>4,798,460</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Instruction				
Regular	101,709	193,784		295,493
Special	2,234,939	168		2,235,107
Support Services				
Pupils	1,189,232			1,189,232
Instructional Staff	641,959	151,172		793,131
Board of Education	7,753			7,753
Administration	318,341			318,341
Fiscal	72,390			72,390
Business	1,584			1,584
Operation and Maintenance of Plant	1,299			1,299
Pupil Transportation		100,476		100,476
Central		620		620
Operation of Non-Instructional Services	216			216
	<u>4,569,422</u>	<u>446,220</u>		<u>5,015,642</u>
<b>Total Cash Disbursements</b>				
Total Cash Receipts Over/(Under) Cash Disbursements	(113,226)	(107,253)	3,297	(217,182)
<b>Other Financing Sources:</b>				
Refund of Prior Year Expenditures	2,800			2,800
<b>Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements</b>				
	(110,426)	(107,253)	3,297	(214,382)
Fund Cash Balances at Beginning of Year	<u>874,329</u>	<u>296,602</u>		<u>1,170,931</u>
<b>Fund Cash Balances at End of Year</b>	<u><u>\$763,903</u></u>	<u><u>\$189,349</u></u>	<u><u>\$3,297</u></u>	<u><u>\$956,549</u></u>

*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 YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Type</b>	<b>Fiduciary Fund Type</b>	<b>Totals (Memorandum Only)</b>
	<b>Internal Service</b>	<b>Agency</b>	
<b>Operating Cash Receipts:</b>			
Other Miscellaneous	\$500		\$500
<b>Operating Cash Disbursements:</b>			
Salaries		2,000	2,000
Fringe Benefits		490	490
Purchased Services	637	862,168	862,805
Materials and Supplies	148	2,240	2,388
Other	51	14,346,479	14,346,530
Total Operating Cash Disbursements	836	15,213,377	15,214,213
Operating Income/(Loss)	(336)	(15,213,377)	(15,213,713)
<b>Non-Operating Cash Receipts:</b>			
Earnings on Investments		13,614	13,614
Refund of Prior Year Expenditures		15,120	15,120
Other Miscellaneous		15,299,545	15,299,545
Total Non-Operating Cash Receipts		15,328,279	15,328,279
Net Receipts Over/(Under) Disbursements	(336)	114,902	114,566
Fund Cash Balances at Beginning of Year	380	1,339,878	1,340,258
<b>Fund Cash Balances at End of Year</b>	<b>\$44</b>	<b>\$1,454,780</b>	<b>\$1,454,824</b>

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

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fund Types/Fund</b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Favorable/ (Unfavorable)</u></b>
<b>Governmental:</b>			
General Fund	\$4,289,203	\$4,458,996	\$169,793
Special Revenue Funds	479,951	338,967	(140,984)
Capital Project Funds	3,297	3,297	
<b>Proprietary:</b>			
Internal Service Fund	2,000	500	(1,500)
<b>Fiduciary:</b>			
Agency Funds	<u>13,348,000</u>	<u>15,328,279</u>	<u>1,980,279</u>
Total (Memorandum Only)	<u><u>\$18,122,451</u></u>	<u><u>\$20,130,039</u></u>	<u><u>\$2,007,588</u></u>

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

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fund Types/Fund</b>	<b>Prior Year Carryover Appropriations</b>	<b>2002 Appropriations</b>	<b>Total</b>
<b>Governmental:</b>			
General Fund	\$29,975	\$5,227,552	\$5,257,527
Special Revenue Funds	34,191	652,913	687,104
<b>Proprietary:</b>			
Internal Service Fund	88	2,380	2,468
<b>Fiduciary:</b>			
Agency Funds	51,523	14,687,878	14,739,401
 Total (Memorandum Only)	 <u>\$115,777</u>	 <u>\$20,570,723</u>	 <u>\$20,686,500</u>

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



<u>Actual 2002 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/02</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$4,569,422	\$25,655	\$4,595,077	\$662,450
446,220	61,347	507,567	179,537
836		836	1,632
15,213,377	18,866	15,232,243	(492,842)
<u>\$20,229,855</u>	<u>\$105,868</u>	<u>\$20,335,723</u>	<u>\$350,777</u>

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**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002**

**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 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Center chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial 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.

**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 according to the general laws of Ohio.

**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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

**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 new 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 (assts 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.

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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

**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 2003 and 2002, investments were limited to STAR Ohio and a sweep repurchase agreement.

Investments are reported at fair value, except for non-negotiable certificates of deposit and repurchase agreements which are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments with 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, 2003.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

**D. 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.

**E. 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, 2003, and in accordance with the Center's sick leave policy management estimates that \$1,700,459 in sick leave, \$10,588 in personal leave and \$8,729 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, 2003.

**F. 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.

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:

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

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.

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 2003, the carrying amount of the Center's deposits was \$4,655,342 and the bank balance was \$4,944,456. Of the bank balance, \$312,469 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized.

At fiscal year end 2002, the carrying amount of the Center's deposits was \$753,363 and the bank balance was \$898,031. Of the bank balance, \$204,043 was covered by federal depository insurance. The remaining amount was uninsured and collateralized.

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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

**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 Center or its agent in the Center'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 STAR Ohio are not classified since they are not evidenced by securities that exist in physical or book entry form.

June 30, 2003	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$19,456	\$19,456	\$19,456
	\$19,456		
STAR Ohio		488,828	488,828
		\$508,284	\$508,284

At year end June 30, 2002, the Center's only investment was in STAR Ohio, and had a carrying and fair value of \$1,658,010.

**4. 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 the school districts served by the Center by \$37 for both 2003 and 2002. 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.



**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

**5. 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, such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2003 or June 30, 2002.

**6. 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 participates in Ohio Schools Risk Sharing Authority, Inc. for insurance coverage. Coverages provided are as follows:

Property Insurance	\$ 250,000
Automobile Liability	1,000,000
Errors and Omissions	1,000,000
Crime Cover	50,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

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.

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.

The Center participates in the Ohio School Risk Sharing Authority (the Authority), a protected self-insurance pool which provides a formalized joint self insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 10, the 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 were administered by CoreSource until 1/1/03. Allied Benefit Systems, Inc. administered the health benefit plan after 1/1/03. In fiscal year 2003, the Center contributed \$4,423 to the life insurance plan and \$14,373 to the cafeteria 125 flexible plan. In fiscal year 2002, the Center contributed \$3,979 to the life insurance plan and \$15,947 to the cafeteria 125 flexible plan.

**7. PENSION PLANS**

**A. 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. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$40,933, \$22,067, and \$14,598, respectively; 100 percent has been contributed for all three fiscal years.

**B. State Teachers Retirement System**

The Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

**7. PENSION PLANS (Continued)**

Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contribution for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001, were \$368,110, \$243,342, and \$235,360, 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, 2003, one member of the Board of Education has elected social security. The Board's liability is 6.2 percent of wages paid.

**8. POSTEMPLOYMENT BENEFITS**

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation 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.

The State Teachers Retirement 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount was \$28,316.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay was established at \$14,500. For the Center, the amount to fund health care benefits, including the surcharge, was \$33,858 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative** - 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, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. 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, at 645 South Main Street, Lima, Ohio 45804.

**West Central Regional Professional Development Center (Center)** - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing 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 board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Sandra Knudson, Treasurer, Hancock County Educational Service Center, 7746 Co. Rd. 140, Findlay, Ohio 45840-3087.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

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

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of fifty-two members made up the fifty superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**10. INSURANCE POOLS**

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

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

**Ohio School Risk Sharing Authority** - The Center participates in the Ohio School Risk Sharing Authority (the Authority), a protected self-insurance pool created and administered under the authority of Ohio Revised Code Section 2744. The Authority is incorporated nonprofit association of its members which enables the participants to provide for a formalized joint self insurance pool and to assist members, including the Center, to prevent and reduce losses and injuries to District property and persons and property program for maintaining adequate insurance protection and provides risk management programs and other administrative services. Member contributions are based on actuarially determined rates and are allocated to a pool self insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002  
(Continued)**

**11. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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, 2003 and 2002, and have issued our report thereon dated November 25, 2003, which noted the 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 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 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated November 25, 2003.

**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. However, we noted one 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 Center's ability to records, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-002.

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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, according, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also 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 November 25, 2003.

This report is intended solely 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.

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

**Betty Montgomery**  
Auditor of State

November 25, 2003



EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

SCHEDULE OF FINDINGS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

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

Finding Number 2003-001	Noncompliance
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**Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

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

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

Finding Number 2003-002	Material Weakness
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**Bank-to-Book Reconciliation**

The Center did not balance when bank-to-book reconciliations were performed for the following months: August 2001, September 2001, October 2001, January 2002, May 2002, June 2002, November 2002, January 2003, February 2003, March 2003, and June 2003. The Center also did not have a valid outstanding checklist for their Allen County Health Benefit Plan checking account at June 30, 2003.

Failure to balance when performing bank-to-book reconciliations could result in incorrect fund balances being reported and also result in errors or irregularities without proper detection.

Monthly bank reconciliations should be performed and reconciled with a cash report in order to find any discrepancies. When discrepancies are noted the Center should determine the source of the discrepancy and make any needed corrections or notations. The Center should also request an outstanding checklist from their third party administrator for the health benefit plan checking account monthly. Once an outstanding checklist is received the Center should review the list for accuracy.

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> : <b><i>Explain:</i></b>
2001-10202-001	Cash Basis Statements	No	See 2003-001



**Auditor of State  
Betty Montgomery**

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER**

**ALLEN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 6, 2004**