



Mary Taylor, CPA  
Auditor of State



**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Combined Statement of Cash, Investments and Fund Cash Balances - All Fund Types - as of June 30, 2006.....	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Fiscal Year Ended June 30, 2006 .....	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Fiscal Year Ended June 30, 2006 .....	5
Combined Statement of Receipts - Budget and Actual - All Budgeted Fund Types - For the Fiscal Year Ended June 30, 2006 .....	6
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - All Budgeted Fund Types - For the Fiscal Year Ended June 30, 2006.....	7
Notes to the Financial Statements .....	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23
Schedule of Findings .....	25
Schedule of Prior Audit Findings .....	29

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Belmont County Educational Service Center  
Belmont County  
101 North Market Street, Suite C  
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the accompanying financial statements of the Belmont County Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Belmont County Educational Service Center, Belmont County, as of and for the year ended June 30, 2006 in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Mary Taylor, CPA**  
Auditor of State

February 23, 2007

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH BALANCES  
ALL FUND TYPES  
AS OF JUNE 30, 2006**

Cash and Cash Equivalents	\$50,872
Cash and Cash Equivalents with Fiscal Agent	15,494
Investments:	
STAROhio	<u>269</u>
<b>Total</b>	<b><u><u>\$66,635</u></u></b>

**CASH BALANCES BY FUND TYPE**

<b>Governmental Funds:</b>	
General Fund	\$43,039
Special Revenue Funds	8,588
Capital Projects Funds	(1,148)
<b>Proprietary Fund:</b>	
Internal Service Funds	16,151
<b>Fiduciary Funds:</b>	
Agency Funds	<u>5</u>
<b>Total</b>	<b><u><u>\$66,635</u></u></b>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Fund Types</u>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>(Memorandum Only)</u>
<b>Cash Receipts:</b>				
Receipts from Local Sources:				
Earnings on Investments	\$3,630	\$	\$	\$3,630
Charges for Services	955,902			955,902
Miscellaneous	2,693			2,693
Receipts from Intermediate Sources:				
Restricted Grants-in-Aid		2,475		2,475
Receipts from State Sources:				
Unrestricted Grants-in-Aid	529,330			529,330
Restricted Grants-in-Aid		3,000		3,000
Receipts from Federal Sources:				
Restricted Grants-in-Aid		50,892		50,892
<b>Total Cash Receipts</b>	<u>1,491,555</u>	<u>56,367</u>	<u>0</u>	<u>1,547,922</u>
<b>Cash Disbursements:</b>				
Instruction:				
Special	375,303	47,105		422,408
Adult/Continuing	525			525
Supporting Services:				
Pupils	289,940			289,940
Instructional Staff	331,365		14,220	345,585
Board of Education	14,290			14,290
Administration	492,486	5,769		498,255
Fiscal Services	66,256			66,256
Central	4,111	2,250		6,361
<b>Total Cash Disbursements</b>	<u>1,574,276</u>	<u>55,124</u>	<u>14,220</u>	<u>1,643,620</u>
Excess of Cash Receipts Over/(Under)				
Cash Disbursements	(82,721)	1,243	(14,220)	(95,698)
Fund Cash Balances, July 1	<u>125,760</u>	<u>7,345</u>	<u>13,072</u>	<u>146,177</u>
<b>Fund Cash Balances, June 30</b>	<u><b>\$43,039</b></u>	<u><b>\$8,588</b></u>	<u><b>(\$1,148)</b></u>	<u><b>\$50,479</b></u>
Reserve for Encumbrances, June 30	<u>\$969</u>	<u>\$40</u>	<u>\$0</u>	<u>\$1,009</u>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Internal Service</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
<b>Operating Cash Receipts:</b>			
Charges to Other Funds	\$60,528	\$	\$60,528
Total Operating Cash Receipts	60,528	0	60,528
<b>Operating Cash Disbursements:</b>			
Purchased Services	64,625		64,625
Supplies and Materials	87	295	382
Other	770	7,500	8,270
Total Operating Cash Disbursements	65,482	7,795	73,277
Operating Loss	(4,954)	(7,795)	(12,749)
<b>Nonoperating Cash Receipts:</b>			
Earnings on Investments	433		433
Miscellaneous	410	200	610
Restricted Grants-in-Aid from State Sources		7,500	7,500
Total Nonoperating Cash Receipts	843	7,700	8,543
Net Loss	(4,111)	(95)	(4,206)
Fund Cash Balances, July 1	20,262	100	20,362
<b>Fund Cash Balances, June 30</b>	<b><u>\$16,151</u></b>	<b><u>\$5</u></b>	<b><u>\$16,156</u></b>

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

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
ALL BUDGETED FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$1,488,559	\$1,491,555	\$2,996
Special Revenue	56,367	56,367	0
<b>Proprietary</b>			
Internal Service	66,987	61,371	(5,616)
<b>Fiduciary</b>			
Agency	7,700	7,700	0
<b>Totals (Memorandum Only)</b>	<b><u><u>\$1,619,613</u></u></b>	<b><u><u>\$1,616,993</u></u></b>	<b><u><u>(\$2,620)</u></u></b>

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

**BELMONT COUNTY 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, 2006**

<u>Fund Types/Funds</u>	<u>Total Appropriations</u>	<u>Total Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$1,607,253	1,575,245	\$32,008
Special Revenue	59,401	55,164	4,237
Capital Projects	14,220	14,220	0
<b>Proprietary</b>			
Internal Service	73,772	65,482	8,290
<b>Fidiciary</b>			
Agency	<u>7,795</u>	<u>7,795</u>	<u>0</u>
<b>Totals (Memorandum Only)</b>	<b><u><u>\$1,762,441</u></u></b>	<b><u><u>\$1,717,906</u></u></b>	<b><u><u>\$44,535</u></u></b>

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

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**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**1. DESCRIPTION OF THE ENTITY AND REPORTING ENTITY**

The Belmont County Educational Service Center (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 designated 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, 2006, 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 separated from the Educational Service Center. For the Belmont County 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 involved with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO SERRC), and the Coalition of Rural and Appalachian Schools (CORAS), which are defined as jointly governed organizations; the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program and the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), which are defined as insurance purchasing pools; 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 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 generally accepted accounting principles, the Educational Service 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.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**B. Pooled Cash and Investments**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. The Educational Service Center utilizes a self-insurance third party administrator to review and pay claims. Money held by the administrator is presented as "Cash and Cash Equivalents with Fiscal Agent" on the "Combined Statement of Cash, Investments and Fund Cash Balances".

During fiscal year 2006, investments were limited to STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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. Investment in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2006.

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statement to be cash equivalents. Investments with an initial maturity of more than three months, not purchased from the pool, are reported as investments.

**C. Fund Accounting**

The Educational Service Center uses funds to report 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 of governmental, proprietary and fiduciary.

**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:

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**C. Fund Accounting (Continued)**

**Governmental Fund Types (Continued)**

**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.

**Capital Project Funds**

Capital Project Funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds).

**Proprietary Fund Type**

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

**Internal Service Funds**

Internal Service Funds account 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.

**Fiduciary Fund Type (Agency Funds)**

These funds are used to account for funds in which the Educational Service Center is acting in an agency capacity.

**D. Budgetary Data**

The Educational Service Center 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. All funds are budgeted and appropriated.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**D. Budgetary Data (Continued)**

**1. Appropriations**

The annual appropriation resolution is enacted by the Educational Service Center Board at the fund, special cost center level of expenditures. When necessary, the Educational Service Center Board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The Educational Service Center Board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of the expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total of any fund appropriation, or alter total special cost center appropriations within a fund, must be approved by the Educational Service Center Board.

The budget figures which appear in the statements of budgetary comparison 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 and is not required by state statute.

**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 used by the Educational Service Center. All leave will either be absorbed by the 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, 2006.

**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.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

Monies held by the Educational Service Center are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center treasury. Active 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.

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to the principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by the 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, Governmental 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Times certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS (continued)**

At June 30, 2006, the Educational Service Center's internal service fund had a balance of \$15,494 with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), a claims servicing pool (See Note 10). The balance is held by the claims administrator in a pooled account which is representative of numerous entities and therefore cannot be included in the risk disclosures reported by the Educational Service Center. Disclosures 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 Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, Jefferson County ESC, 2023 Sunset Blvd., Steubenville, Ohio 43952-1349.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2006, \$20,348 of the Educational Service Center's bank balance of \$120,348, which included \$39,203 for the payroll clearance account, was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

**Investments**

As of June 30, 2006, the Educational Service Center had an investment in STAROhio. The fair value of the investments in STAROhio was \$269 and had an average maturity of 34.77 days.

**Investment Rate Risk.** The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk.** STAROhio carries a rating of AAAM by Standards and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center had no investment policy that addresses credit risk.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. PRIMARY REVENUE SOURCES**

There are two primary sources of operating revenue for the Educational Service Center. The first primary source for Educational Service Center operating dollars comes from payments made directly to the Educational Service Center by districts that have contracted with the Educational Service Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Educational Service Center settlement report for foundation payments has two sections: paid by the State and paid by the local school districts.

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

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

The third part represents supervisory extended service amounts associated with co-op units. The amount will be recovered by the State from districts that are parties to the cooperative agreement.

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

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

**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.

The Educational Service Center, along with other school districts in Ohio, participates in the Schools of Ohio Risk Sharing Authority, Inc. Plan (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the SORSA (See Note 10).

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

**A. Property and Liability (Continued)**

Insurance coverage provided includes the following:

Coverage	Limits	Members Deductible
<u>PROPERTY:</u>		
Including Inland Marine, Miscellaneous Equipment, Equipment Breakdown and Auto Physical Damage	\$51,050	\$1,000
<u>CRIME COVERAGE:</u>		
Employee Dishonesty Including Faithful Performance of Duty	\$50,000	\$1,000
Forgery or Alteration	\$50,000	\$1,000
Computer Fraud	\$50,000	\$1,000
Theft, Disappearance and Destruction	\$50,000	\$1,000

At fiscal year end, the Educational Service Center had approximately five months under the above coverage. They were previously involved with the Ohio School Plan for similar coverage. Settled claims have not exceeded 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 2006, the Educational Service Center participated in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 10). The intent 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 pool. 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 pool. Each participant pays its workers' compensation premium to the State based on the rate for the G.R.P. 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 G.R.P. 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 G.R.P. Participation is limited to school districts that can meet the G.R.P.'s selection criteria. The firm of Sheakley Uniservice, Inc., provides administrative, cost control and actuarial services to the Educational Service Center.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

**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 \$722 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.

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

	<u>2006</u>	<u>2005</u>
Cash and investments	\$15,494	\$19,158
Actuarial liabilities	\$722	\$369

**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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center's 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 2006, 10.58 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 Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$20,204, \$15,797, and \$13,693 respectively.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

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

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 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$115,489, 104,479, and \$107,915, respectively.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

**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, 2006, 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 Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$8,884 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the fiscal year 2006 equaled \$10,350.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS (Continued)**

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants 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 ORGANIZATIONS**

**Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)**

OME-RESA was created as a regional council of governments pursuant to State statute. OME-RESA participants consist of school districts and county educational service centers. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2006, the total amount paid to OME-RESA from the Educational Service Center was \$48,290. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

**Coalition of Rural and Appalachian Schools (CORAS)**

CORAS is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of fourteen members. The board members are comprised of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Educational Service Center's membership fee was \$300 for fiscal year 2006.

**East Central Ohio Special Education Regional Resource Center (ECO SERRC)**

ECO SERRC is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio that operates under the direction of an Advisory Board that consists of one or more superintendents from each of the 10 participating counties. This Board establishes policy, approves the budget and recommends employment through its fiscal agent, Tuscarawas, Carroll, Harrison Educational Service Center. The ECO SERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

Educational Service Center and the ECO SERRC is not financially dependent upon the continued participation of the Educational Service Center. The Educational Service Center does not maintain an equity interest in or financial responsibility for the ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 834 E. High Avenue, New Philadelphia, Ohio 44663-3052.

**10. PUBLIC ENTITY POOLS**

**A. Insurance Purchasing Pools**

**Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program**

The Educational Service Center participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (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 OASBO. The Director of the OASBO, 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.

**Schools of Ohio Risk Sharing Authority, Inc. (SORSA)**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to Educational Service Center property and persons and property which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverage provided by SORSA. Coverage includes comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 8050 N. High Street, Suite 160, Columbus, Ohio 43235-6483.

**B. Claims Servicing Pool**

**Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan**

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.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. CONTINGENCIES**

**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, 2006.



# Mary Taylor, CPA

## Auditor of State

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

Belmont County Educational Service Center  
Belmont County  
101 North Market Street, Suite C  
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the financial statements of the Belmont County Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 23, 2007, wherein we noted the Educational Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2006-003 and 2006-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Educational Service Center's management dated February 23, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002.

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

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

**Mary Taylor, CPA**  
Auditor of State

February 23, 2007

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Noncompliance Citation**

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

We recommend the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with GAAP. The Educational Service Center should refer to Auditor of State Bulletin 2005-002 which clarifies the Auditor of State's position on GAAP reporting.

**Officials' Response**

The Board of Education feels the cost of GAAP reporting/audit out weighs the benefit of the GAAP report.

**FINDING NUMBER 2006-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above. The main exceptions are: "then and now" certificates, blanket certificates and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

Then and Now Certificate – If the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the certification sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Educational Service Center can authorize the drawing of a warrant for the payment of the amount due. The Educational Service Center has thirty days from receipt of such certificate to approve payment by ordinance or resolution.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-002 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Educational Service Center.

Blanket Certificate – Fiscal officers may prepare so-called “blanket” certificates against any specific line item account over a period not exceeding beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Blanket certificates may not exceed an amount established by resolution or ordinance of the legislative authority. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

Super Blanket Certificate – The Educational Service Center may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Educational Service Center did not properly certify the availability of funds prior to incurring the obligation for 36 percent of expenditures tested. By not properly certifying the availability of funds prior to incurring an obligation can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Educational Service Center’s funds exceeding budgetary spending limitations, we recommend that the Educational Service Center Treasurer certify that funds are or will be available prior to an obligation being incurred by the Educational Service Center. When prior certification is not possible, “then and now” certification should be used.

We recommend the Educational Service Center certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 5705.41(D) requires to authorize disbursements. The Educational Service Center Treasurer should sign the certification at the time the Educational Service Center incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Educational Service Center Treasurer should post approved purchase commitments to the appropriation code, to reduce the available appropriation.

**Officials’ Response**

The Treasurer has instructed staff that all purchases will need a requisition and Superintendent’s signature for approval of the purchase. Once approval has been granted a purchase order will be issued.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-003**

**Reportable Condition**

The Educational Service Center is allowed by statute (Ohio Rev. Code Section 3313.843) to provide various services for city, local and exempted village school districts and it may contract with city and exempted village school districts to provide services. During fiscal year 2006, the Educational Service Center's procedure for billing local and client districts was to submit bills on a quarterly basis.

Our review of the billing process resulted in the following internal control weaknesses:

- The client school districts were not billed in a timely manner as most quarterly billings were at least one quarter behind.
- Supply amounts could not always be substantiated to the actual purchase order amounts.
- Local and client districts were charged for supplies and administrative personnel, as well as a two percent administrative charge. For some quarterly billings, it appeared that supply amounts being billed were greater than the support provided. The administrative charges were also greater at times than the support provided.
- The Educational Service Center was not consistent in the method used to allocate costs to local and client districts. Some times total ADM was used and at other times the allocation was according to number of students served. When allocated according to the number of students served, supporting documentation was not always provided for audit.
- Secretary salaries were at times incorrectly billed to the school districts.

We recommend the Educational Service Center and the School Districts review the current method of billing services. The Educational Service Center should adopt a system of internal control that ensures timely billing of School District's for services provided by the Educational Service Center and ensure the collection and compilation of the data needed to prepare billings be supported by the accounting system and source documentation.

**Officials' Response**

We will address the above noted internal control weaknesses as follows:

- The billing will be sent out three to four weeks after the month of the quarter being billed.
- Quarterly billings for the supply account are now being billed from actual reports for the quarter.
- Administrative fees are 2% of the total cost per employee and will not be billed if the service has not been used by the client school district.
- If number of students is being used as the basis to allocate costs a list of student names are given to each district being billed so the districts can check to make sure they are their students.
- Secretaries are not being billed for unless the supervisor signs off on their time sheets stating and agreeing that the time was being used for their program.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2006-004**

**Reportable Condition**

The Educational Service Center has entered into agreements with local, as well as city and exempted village school districts, as provided under Ohio Rev. Code Section 3313.843, to provide various services.

We noted the agreements did not specifically outline, in detail, the services the Educational Service Center will provide or the services the client district is expecting. The agreements basically indicated the client district will pay for costs incurred above state funding and, in addition to or in place of, any unit or related service allocation for applicable ancillary services provided to client district by the Educational Service Center. There was no mention of the administrative charges that were being assessed by the Educational Service Center.

We recommend the Educational Service Center and their client districts review their procedures for agreeing to services to be provided by the Educational Service Center. The agreements should outline, in specific detail, the services agreed to between the Educational Service Center and the client districts. The agreement should include language outlining what costs are to be charged back to the client district, what costs are to be reduced by state funding received by the Educational Service Center, and how the administrative charges are to be calculated. Also, the Educational Service Center, local districts and client districts should agree to a method of allocating costs to each district. Within the agreement, the Educational Service Center should list the projected budget for each service provided and the month the Educational Service Center expects to settle the actual costs.

**Officials' Response**

The Superintendent indicated that because the contracts need to be sent to the state by May and the districts may not know what services they are going to need the contracts are kept simple so that at any given time the districts can add or subtract any services. We can also add or delete individual services per district. Even though the contracts are vague, the districts are now receiving a more detailed billing of services provided with supporting documents to show what services they are actually receiving.

**BELMONT COUNTY EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Finding repaid under audit issued against the former Treasurer, Judy Oberdick, for an \$800 overpayment of compensation.	Yes	N/A.
2005-002	Finding repaid under audit issued against the former Treasurer, Judy Oberdick, for \$2,733 for an illegal expenditure to herself.	Yes	N/A.
2005-003	Reportable condition for school excess cost billing procedure concerns.	No	Not Corrected; Reissued as Finding Number 2006-003.
2005-004	Reportable condition for school excess cost service contract concerns.	No	Not Corrected; Reissued as Finding Number 2006-004.
2005-005	Reportable condition for general checking account reconciliations.	No	Partially Corrected; No longer deemed significant; Reissued in management letter.
2005-006	Ohio Admin. Code Section 117-2-03 (B) for not filing annual financial statements in accordance with generally accepted accounting principles.	No	Not Corrected; Reissued as Finding Number 2006-001.
2005-007	Ohio Rev. Code Section 5705.41(D)(1) for not properly certifying the availability of funds prior to incurring an obligation.	No	Not Corrected; Reissued as Finding Number 2006-002.





**Mary Taylor, CPA**  
Auditor of State

**BELMONT COUNTY 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  
APRIL 3, 2007**