



Dave Yost • Auditor of State

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Allen County Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio (the Service Center), as of and for the fiscal years ended June 30, 2011 and 2010, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the 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 follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio, as of June 30, 2011 and 2010, and the respective changes in cash financial position, thereof in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2012, on our consideration of the 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.

We conducted our audit to opine on the Service Center's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, change in net assets, and governmental activities. The Budgetary Comparison Schedules for the General Fund and the SESA Fund (the Schedules) are supplementary information. These tables and the Schedules provide additional information, but are not part of the basic financial statements. However these tables and the Schedules are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on them.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" at the end.

Dave Yost
Auditor of State

April 12, 2012

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- General Receipts accounted for \$1,139,807 or 15 percent of all receipts. Charges for Services and Sales and Operating Grants and Contributions accounted for \$6,597,552 or 85 percent of all receipts.
- Total program disbursements were \$7,524,425 for all governmental activities.
- In total, net assets increased \$212,934.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2011, the General Fund is the most significant fund.

Basis of Accounting

The Service Center has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the financial position of the Service Center has improved or diminished. The causes of the change may be the result of many factors, such as the ability of the local school districts to continue to contract for services from the Service Center, which is their major source of revenue.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, and operation and maintenance of plant (buildings).

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 6. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental fund is the General Fund.

Governmental Funds – All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary funds - The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 13. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net assets for fiscal year 2011 compared to fiscal year 2010:

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	
	2011	2010
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$1,027,619	\$814,685
Total Assets	<u>1,027,619</u>	<u>814,685</u>
Net Assets:		
Restricted for Other Purposes	198,870	180,055
Unrestricted	828,749	634,630
Total Net Assets	<u>\$1,027,619</u>	<u>\$814,685</u>

Net assets of the governmental activities increased \$212,934, which represents a 26 percent increase from fiscal year 2010. The increase is the result of an increase in tuition and fees and contract services.

A portion of the Service Center's net assets, \$198,870, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$828,749 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities	
	2011	2010
Receipts:		
Program Receipts:		
Charges for Services	\$6,286,278	\$6,054,604
Operating Grants	311,274	380,872
General Receipts:		
Grants and Entitlements	1,080,972	1,064,044
Interest	2,368	2,810
Miscellaneous	56,467	89,811
Total Receipts	<u>7,737,359</u>	<u>7,592,141</u>
Program Disbursements:		
Instruction	3,572,091	3,637,953
Support Services	3,951,896	3,808,692
Non-Instructional	438	1,376
Total Disbursements	<u>7,524,425</u>	<u>7,448,021</u>
Increase (decrease) in Net Assets	<u>\$ 212,934</u>	<u>\$ 144,120</u>

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Increased charges for service reflects increased demand for special education services at the Service Center. During fiscal year 2011, the Service Center's diligent monitoring of spending is reflected in the \$76,404 increase in total disbursements.

During fiscal year 2011, the costs for supervisors and their support staff were also reclassified from instruction to support services. Fiscal year 2010 disbursement were reclassified for comparative analysis.

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$6.6 million in fiscal year 2011. The increase in receipts is reflected in the increase in net assets and cash as of June 30, 2011. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants and Contributions were 88 percent of total receipts in fiscal year 2011.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2011		2010	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$3,572,091	\$308,979	\$3,637,953	\$ 338,348
Support Services:				
Pupil and Instructional Staff	2,986,821	379,373	2,980,972	407,979
Governing Board, Administration				
Fiscal and Business	826,490	281,150	684,154	264,957
Operation and Maintenance of Plant	367	367	375	375
Pupil Transportation	134,018	(44,634)	141,391	710
Central	4,200	1,200	1,800	(1,200)
Operation of Non-instructional Services	438	438	1,376	1,376
Total	\$7,524,425	\$926,873	\$7,448,021	\$1,012,545

Instruction and student support services comprise 87 percent of governmental program disbursements. Pupil transportation accounts for 2 percent of governmental program disbursements. Governing Board, administration, fiscal and business charges totaled 11 percent. The Service Center's dependence upon unrestricted grants is evident.

The Service Center's Funds

The Service Center has one major governmental fund: the General Fund. The assets of this fund comprise \$828,749, or 81 percent of the \$1,027,619 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2011 increased \$194,119 to \$828,749. General fund receipts for fiscal year 2011 were \$7,330,647, or 95 percent of total governmental receipts of \$7,723,727. General fund disbursements for fiscal year 2011 were \$7,150,160, or 95 percent of total governmental disbursements of \$7,524,425.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Service Center does not have local tax levies financing its operation. However, the Governing Board annually adopts an expenditure budget, which sets the spending authority, or appropriations, for each fund for the ensuing fiscal year, and is set at the fund level. Revenues are not budgeted by the Governing Board.

During the course of fiscal year 2011, the Service Center did not significantly modify its General Fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, actual disbursements on the budget basis (cash outlays plus encumbrances) for fiscal year 2011 were approximately \$7.2 million, approximately \$402,000 less than what was budgeted during the year due to the close monitoring of spending by the Service Center.

Current Issues

Even though the Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program, grants and contracts secured with the local school districts. The State Foundation Program was adjusted for the 2010-2011 school year to help schools through our economy crisis. What will happen in the future remains a concern. The Service Center anticipates a ten percent cut in fiscal year 2012 and fifteen percent cut in fiscal year 2013.

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801.

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ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,027,619
Total Assets	<u>1,027,619</u>
Net Assets:	
Restricted for Other Purposes	198,870
Unrestricted	828,749
Total Net Assets	<u>\$1,027,619</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u> <u>Receipts and Changes</u> <u>in Net Assets</u>
		<u>Charges for</u> <u>Services and Sales</u>	<u>Operating Grants</u> <u>and Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$255,534		\$54,534	(\$201,000)
Special	3,316,557	\$3,208,578		(107,979)
Support Services:				
Pupil	2,359,168	2,037,028	34,461	(287,679)
Instructional Staff	627,653	421,546	114,413	(91,694)
Governing Board	14,505			(14,505)
Administration	628,462	545,340		(83,122)
Fiscal	182,575			(182,575)
Business	948			(948)
Operation and Maintenance of Plant	367			(367)
Pupil Transportation	134,018	73,786	104,866	44,634
Central	4,200		3,000	(1,200)
Operation of Non-Instructional Services	438			(438)
Total Governmental Activities	<u>\$7,524,425</u>	<u>\$6,286,278</u>	<u>\$311,274</u>	<u>(926,873)</u>
General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				1,080,972
Interest				2,368
Miscellaneous				56,467
Total General Receipts				<u>1,139,807</u>
Change in Net Assets				212,934
Net Assets - Beginning of Year				<u>814,685</u>
Net Assets - End of Year				<u>\$1,027,619</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	All Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$828,749	\$198,870	\$1,027,619
Total Assets	828,749	198,870	1,027,619
Fund Balances:			
Restricted		198,870	198,870
Assigned	41,094		41,094
Unassigned	787,655		787,655
Total Fund Balances	\$828,749	\$198,870	\$1,027,619

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:			
Intergovernmental	\$1,080,972	\$241,774	\$1,322,746
Interest	2,368		2,368
Tuition and Fees	2,909	33,162	36,071
Extracurricular Activities	786		786
Contract Services	6,200,777		6,200,777
Gifts and Donations		69,500	69,500
Miscellaneous	42,835	48,644	91,479
Total Receipts	<u>7,330,647</u>	<u>393,080</u>	<u>7,723,727</u>
Disbursements:			
Current:			
Instruction:			
Regular	201,000	54,534	255,534
Special	3,289,347	27,210	3,316,557
Support Services:			
Pupil	2,347,512	11,656	2,359,168
Instructional Staff	476,556	151,097	627,653
Governing Board	14,505		14,505
Administration	628,462		628,462
Fiscal	182,575		182,575
Business	948		948
Operation and Maintenance of Plant	367		367
Pupil Transportation	8,450	125,568	134,018
Central		4,200	4,200
Operation of Non-Instructional Services	438		438
Total Disbursements	<u>7,150,160</u>	<u>374,265</u>	<u>7,524,425</u>
Excess of Receipts Over/(Under) Disbursements	<u>180,487</u>	<u>18,815</u>	<u>199,302</u>
Other Financing Sources:			
Refund of Prior Year Disbursements	13,632		13,632
Total Other Financing Sources	<u>13,632</u>		<u>13,632</u>
Net Change in Fund Balances	194,119	18,815	212,934
Fund Balances - Beginning of Year	<u>634,630</u>	<u>180,055</u>	<u>814,685</u>
Fund Balances - End of Year	<u><u>\$828,749</u></u>	<u><u>\$198,870</u></u>	<u><u>\$1,027,619</u></u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS - FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity Pooled in Cash and Cash Equivalents	\$3,020,205
Total Assets	<u>3,020,205</u>
Net Assets:	
Held in Trust for:	
Others	42,061
Pool Participants	<u>2,978,144</u>
Total Net Assets	<u>\$3,020,205</u>

See accompanying notes to the basic financial statements.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

The Allen County Educational Service Center (the 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 Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (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.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related activities.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organization's governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt, or the levying of taxes. The Service Center has no component units.

The Service Center is associated with one jointly governed organization and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 8 and 9 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The FSAB has codified it's standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the Service Center's accounting policies.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

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

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets-Cash Basis and Statement of Activities-Cash Basis display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

2. Fund Financial Statements

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all funds.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which all governmental functions of the Service Center are financed. The following is the Service Center's major governmental fund:

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The Service Center's agency funds are established for employee benefit plans, academic quiz bowl activities, and the regional school improvement team.

C. Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures which are reported and defined in the supplemental information of this report.

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Schools' Health Benefit Plan Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies are reported as investments.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, investments were limited to STAROhio and US Treasury Notes and US Treasury Money Market Funds.

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. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2011.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2011 were \$2,368, which included \$463 assigned from other funds.

E. Capital Assets

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

F. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Service Center.

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

H. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

I. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2011, these funds include the Preschool Grant.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets and displayed in separate components:

- a. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have any assets restricted by enabling legislation.
- b. **Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net assets are available.

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is divided into five classifications based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

- a. **Non-spendable** - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. **Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. **Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- d. Assigned** - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.
- e. Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. As described further in Note 4, the Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

N. Implementation of New Accounting Policies

For the year ended June 30, 2011, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned and/or unassigned. Implementation of GASB 54 did not impact opening Net Assets or Fund Balances.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of GASB No. 59 did not affect the presentation of the financial statements of the Service Center.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to passbook accounts.

Interim 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 Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificate of deposits or savings deposits accounts including, but not limited to passbook savings accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio)

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(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
9. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit 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 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 105 percent of the deposits being secured.

At June 30, 2011, the carrying amount of the Service Center's deposits was \$3,441,380 and the bank balance was \$4,124,928. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$1,179,271 was covered by federal depository insurance and \$2,945,657 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

All investments are reported at cost. As of June 30, 2011, the Service Center's investments were as follows:

	Cost	Maturities (at Cost)		Percentage Of Total
		< 1 yr	1-5 yrs	
Federal National Mortgage Association	\$201,822	\$201,822		33.28%
Federal Home Loan Bank	196,721		\$196,721	32.44%
Federal Farm Credit Bank	200,066		200,066	32.98%
Money Market	2,310	2,310		0.38%
STAR Ohio	5,525	5,525		0.92%
Total	\$606,444	\$209,657	\$396,787	100.00%

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(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The U.S. Treasury Money Market and the Federal Agency Securities carry a rating of AAA by Standard and Poor's. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carried a rating of AAAm by Standard and Poor's. All investments are held by the investment's counterparty and not in the name of the Service Center.

Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center's investments are summarized above.

4. PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. 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.

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4. PRIMARY RECEIPT SOURCES (Continued)

This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The 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. This amount will be recovered by the State from the 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 intergovernmental receipts.

The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

B. State Foundation Distributions

1. Amounts Paid by the Local School Districts

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 ADM 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 contract services.

2. Amounts Paid under Contract by Local School Districts

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

5. RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$1,159,962
Automobile Liability	3,000,000
General Liability	
Per occurrence	3,000,000
Total per year	5,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year. The Service Center participates in the Ohio School Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self-insurance pool.

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(Continued)**

5. RISK MANAGEMENT (Continued)

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.

B. Workers' Compensation

For fiscal year 2011, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The Service 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 Service Center pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by CBA Benefit Services and Allied Benefit Systems, Inc. In fiscal year 2011, the Service Center contributed \$3,136 to the life insurance plan and \$37,150 to the cafeteria 125 flexible plan.

6. PENSION PLANS

A. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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(Continued)**

6. PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. For fiscal year 2011, it was determined the employer contribution rate to pension and death benefits to be 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board.

The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$114,095, \$121,528, and \$80,292 respectively. The Service Center has paid 95 percent of the contribution for 2011 and 100 percent has been contributed for fiscal years 2010 and 2009, respectively.

B. State Teachers Retirement System

The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB Plan portion of the Combined Plan payment is payable to a member on or after age sixty; the DB Plan portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. For fiscal year 2011, the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 employer contributions.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. PENSION PLANS (Continued)

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$516,884, \$521,143, and \$490,445, respectively; 95 percent has been contributed for 2011 and 100 percent has been contributed for fiscal years 2010 and 2009, respectively. Contributions to the DC and Combined Plans for fiscal year 2011 were \$28,493 made by the Service Center and \$20,352 made by the plan members.

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, 2011, no members of the Governing Board have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

7. POST-EMPLOYMENT BENEFITS

The Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("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 reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

A. School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was 0.76 percent. The Service Center's contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$7,342, \$7,227 and \$6,625, respectively, which equaled the required contributions each year.

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7. POST-EMPLOYMENT BENEFITS (Continued)

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund.

For the year ended June 30, 2011, the health care allocation was 1.43 percent. For fiscal year ended June 30, 2010, the healthcare allocation was .46 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution is the total amount assigned to the Health Care Fund. The Service Center's contributions assigned to health care fund for the fiscal years ended June 30, 2011, 2010, and 2009 were \$48,820, \$35,134 and \$36,745, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description - The Service Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The Service Center's contributions for post-employment health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$39,760, \$40,088 and \$39,179, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009, respectively.

8. JOINTLY GOVERNED ORGANIZATION

A. Northwest Ohio Area Computer Services Cooperative

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

9. INSURANCE PURCHASING POOLS

A. Ohio Risk Sharing Authority

The Service Center participates in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. ORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The ORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the ORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Ohio School Boards Association Workers' Compensation Group Rating Program

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. INSURANCE PURCHASING POOLS (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

C. Allen County Schools Health Benefit Plan

The Service 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 and Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

Financial information can be obtained from Brian Rockhold, who serves as Chairman, at the Allen County Educational Service Center, 1920 Slabtown Rd, Lima, Ohio 45804.

10. OPERATING LEASES

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2009 for a term of 60 months with monthly payments of \$9,771. Payments are made from the General Fund and totaled \$117,250 for fiscal year 2011.

The Service Center is obligated under a five year operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights. The lease is for a term of 3,300,000 total aggregate copies and a minimum annual commitment of 6600,000 aggregate copies at a price of \$0.02183 per copy. The lease was effective March 21, 2011. Lease payments are made to Perry Corporation and totaled \$17,965 for fiscal year 2011. Payments are allocated to the funds which use the copiers.

11. CONTINGENCIES

Grants - The 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 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 Service Center at June 30, 2011.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:			
Educational Grants		\$198,870	\$ 198,870
Total Restricted		198,870	198,870
Assigned to:			
Student Activities	\$ 2,194		2,194
Unpaid Obligations	38,900		38,900
Total Assigned	41,094		41,094
Unassigned	787,655		787,655
Total Fund Balance	<u>\$828,749</u>	<u>\$198,870</u>	<u>\$1,027,619</u>

13. CONTRACTUAL COMMITMENTS

At June 30, 2011 the Service Center had the following outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/11</u>
Lima City Schools	SESA Tir Sub Cost	\$60,000	\$20,208
Owens Community College	Tuition for Preservice Driver	\$20,000	\$20,000
Lima Memorial Hospital	Bus Driver Physicals	\$10,000	\$10,000
ACESC Multi Vendor	ADV Class OBI	\$12,000	\$12,000

14. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2011, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the service Center.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Intergovernmental			\$1,080,972	
Interest			2,368	
Tuition and Fees			2,909	
Extracurricular Activities			786	
Contract Services			6,200,777	
Miscellaneous			<u>42,835</u>	
Total Receipts			<u>7,330,647</u>	
Disbursements:				
Current:				
Instruction:				
Regular	\$337,979	\$317,298	201,200	\$116,098
Special	3,531,673	3,416,098	3,292,567	123,531
Support Services:				
Pupil	2,413,011	2,415,745	2,348,490	67,255
Instructional Staff	446,495	496,748	477,203	19,545
Governing Board	18,516	18,862	15,527	3,335
Administration	625,098	716,994	661,081	55,913
Fiscal	187,328	192,841	182,789	10,052
Business	1,039	1,039	948	91
Operation and Maintenance of Plant	371	371	367	4
Pupil Transportation	10,782	10,782	8,450	2,332
Operation of Non-Instructional Services	4,263	4,263	438	3,825
Total Disbursements	<u>\$7,576,555</u>	<u>\$7,591,041</u>	<u>7,189,060</u>	<u>\$401,981</u>
Excess of Receipts Over (Under) Disbursements			<u>141,587</u>	
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements			13,632	
Total Other Financing Sources (Uses)			<u>13,632</u>	
Net Change in Fund Balance			155,219	
Fund Balance - Beginning of Year			601,687	
Prior Year Encumbrances Appropriated			<u>32,943</u>	
Fund Balance - End of Year			<u>\$789,849</u>	

See accompanying notes to the budgetary comparison schedule.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION
JUNE 30, 2011**

NOTE A - BASIS OF BUDGETING

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

NOTE B - GENERAL BUDGET POLICIES

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Governing Board does not budget receipts.

The primary level of budget control established by the Governing Board is at the fund level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budget basis and reserves that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as an assigned fund balance for subsequent year expenditures for governmental funds.

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. Encumbrance appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Budgetary Comparison Schedule for the General Fund is presented as supplementary information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE C - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for the General Fund is prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as an assigned fund balance (cash basis).

The adjustment necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Balance	
	General Fund
Budget basis	\$155,219
Adjustment for encumbrances	38,900
Cash basis	<u>\$194,119</u>

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (the "Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- General Receipts accounted for \$1,156,665 or 15 percent of all receipts. Charges for Services and Sales and Operating Grants and Contributions accounted for \$6,435,476 or 85 percent of all receipts.
- Total program disbursements were \$7,448,021 for all governmental activities.
- In total, net assets increased \$144,120.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2010, the General Fund and Science Enhancement for Science Advancement ("SESA") Fund are the most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the financial position of the Service Center has improved or diminished. The causes of the change may be the result of many factors, such as the ability of the local school districts to continue to contract for services from the Service Center, which is their major source of revenue.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, and operation and maintenance of plant (buildings).

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 40. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the General Fund and SESA Fund.

Governmental Funds – All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary funds - The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 47. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

The Service Center as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for fiscal year 2010 compared to fiscal year 2009:

**(Table 1)
Net Assets – Cash Basis**

	Governmental Activities	
	2010	2009
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$814,685	\$670,565
Total Assets	<u>814,685</u>	<u>670,565</u>
Net Assets:		
Restricted for Other Purposes	180,055	180,051
Unrestricted	634,630	490,514
Total Net Assets	<u>\$814,685</u>	<u>\$670,565</u>

Net assets of the governmental activities increased \$144,120, which represents a 21 percent increase from fiscal year 2009. The increase is the result of an increase in tuition and fees and contract services. During fiscal year 2010, funding for instruction was \$77,010 under the disbursements.

A portion of the Service Center's net assets, \$180,055, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$634,630 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal years 2010 and 2009. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

**(Table 2)
Change in Net Assets**

	Governmental Activities	
	2010	2009
Receipts:		
Program Receipts:		
Charges for Services	\$6,054,604	\$5,427,060
Operating Grants	380,872	505,311
General Receipts:		
Grants and Entitlements	1,064,044	1,082,373
Interest	2,810	6,159
Miscellaneous	89,811	76,343
Total Receipts	<u>7,592,141</u>	<u>7,093,246</u>
Program Disbursements:		
Instruction	3,795,812	3,824,226
Support Services	3,650,833	3,316,182
Non-Instructional	1,376	3,854
Total Disbursements	<u>7,448,021</u>	<u>7,144,262</u>
Increase (decrease) in Net Assets	<u>\$ 144,120</u>	<u>(\$ 51,016)</u>

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Increased stimulus funding received by local school districts increased demand for special education services at the Service Center. During fiscal year 2010, the increased costs for instructional aides were also reclassified from instruction to support services. Fiscal year 2009 disbursement were also reclassified for comparative analysis.

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$6.4 million in fiscal year 2010. The increase in receipts is reflected in the increase in net assets and cash as of June 30, 2010. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants and Contributions were 85 percent of total receipts in 2010.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2010		2009	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$3,795,812	\$ 77,010	\$3,824,226	\$ 86,926
Support Services:				
Pupil and Instructional Staff	2,980,972	752,058	2,684,520	639,520
Governing Board, Administration				
Fiscal and Business	526,295	182,216	482,729	482,729
Operation and Maintenance of Plant	375	375	375	375
Pupil Transportation	141,391	710	141,358	(5,713)
Central	1,800	(1,200)	7,200	4,200
Operation of Non-instructional Services	1,376	1,376	3,854	3,854
Total	\$7,448,021	\$1,012,545	\$7,144,262	\$1,211,891

Instruction and student support services comprise 98 percent of governmental program disbursements. Pupil transportation accounts for 2 percent of governmental program disbursements. Governing Board, administration, fiscal and business charges totaled 2 percent.

The Service Center's Funds

The Service Center has two major governmental funds: the General Fund and the SESA Fund. The assets of these funds comprise \$743,867, or 91 percent of the \$814,685 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2010 increased \$144,116 to \$634,630, \$601,687 of which is an unreserved balance. General fund receipts for fiscal year 2010 were \$7,155,739, or 95 percent of total governmental receipts of \$7,569,915. General Fund disbursements for fiscal year 2010 were \$7,033,849, or 94 percent of total governmental disbursements of \$7,448,021.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

SESA Fund - The Science Enhance for Science Advancement (SESA) Fund is used to enhance science learning in schools. SESA is a partnership between the Allen County Schools, Lima City Schools and industry partners. The partners have a committee that meets one-two times per year to determine the budget and which companies will be asked to contribute. The fund pays for COSI and science experiments to be brought into the classrooms for demonstrations as well as the substitute's salary for the teacher-in-residence whom manages and organizes the events of SESA.

During fiscal year 2010, fund balance decreased \$13,815 due to an increase in Instructional Staff disbursements. Fund balance at June 30, 2010 was \$109,237, including \$100,537, or 92 percent, of unreserved balance. The SESA fund balance comprises 13 percent of total governmental fund balances.

General Fund Budgeting Highlights

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Service Center does not have local tax levies financing its operation. However, the Governing Board annually adopts an expenditure budget, which sets the spending authority, or appropriations, for each fund for the ensuing fiscal year, and is set at the fund level. Revenues are not budgeted by the Governing Board.

During the course of fiscal year 2010, the Service Center did not significantly modify its General Fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, actual disbursements on the budget basis (cash outlays plus encumbrances) for fiscal year 2010 were approximately \$7 million, approximately \$824,000 less than what was budgeted during the year. For the SESA fund, actual disbursements on the budget basis for fiscal year 2010 were approximately \$85,000 less than the final budgeted disbursements.

Current Issues

Even though the Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program and any grants secured. The State Foundation Program was adjusted for the 2009-2010 school year to help schools through our economy crisis. Stimulus funds are being distributed to schools, not ESCs, this year. Tuition and fees varies from year to year and increased in FY 10. What will happen in 2010-2011 remains a concern.

The Service Center's largest receipt stream is the contracts secured with the local schools from the services offered. The Service Center is like all businesses: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801.

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ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$814,685
Total Assets	<u>814,685</u>
Net Assets:	
Restricted for Other Purposes	180,055
Unrestricted	<u>634,630</u>
Total Net Assets	<u>\$814,685</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u>
		<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>in Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$305,286		\$66,169	(\$239,117)
Special	3,490,526	\$3,636,971	15,662	162,107
Support Services:				
Pupil	2,375,602	1,994,694	51,223	(329,685)
Instructional Staff	605,370	387,124	139,952	(78,294)
Governing Board	12,044			(12,044)
Administration	332,035			(332,035)
Fiscal	181,268			(181,268)
Business	948			(948)
Operation and Maintenance of Plant	375			(375)
Pupil Transportation	141,391	35,815	104,866	(710)
Central	1,800		3,000	1,200
Operation of Non-Instructional Services	1,376			(1,376)
Total Governmental Activities	<u>\$7,448,021</u>	<u>\$6,054,604</u>	<u>\$380,872</u>	<u>(1,012,545)</u>
 General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				1,064,044
Interest				2,810
Miscellaneous				89,811
Total General Receipts				<u>1,156,665</u>
Change in Net Assets				144,120
Net Assets - Beginning of Year				<u>670,565</u>
Net Assets - End of Year				<u><u>\$814,685</u></u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	SESA Fund	All Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$634,630	\$109,237	\$70,818	\$814,685
Total Assets	<u>634,630</u>	<u>109,237</u>	<u>70,818</u>	<u>814,685</u>
Fund Balances:				
Reserved for Encumbrances	32,943	8,700	7,814	49,457
Unreserved, Undesignated, Reported in:				
General Fund	601,687			601,687
Special Revenue Funds		100,537	63,004	163,541
Total Fund Balances	<u>\$634,630</u>	<u>\$109,237</u>	<u>\$70,818</u>	<u>\$814,685</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Intergovernmental	\$1,066,554		\$293,361	\$1,359,915
Interest	2,810			2,810
Tuition and Fees	52,702		35,815	88,517
Extracurricular Activities	1,842			1,842
Contract Services	5,964,246			5,964,246
Gifts and Donations		\$85,000		85,000
Miscellaneous	67,585			67,585
Total Receipts	<u>7,155,739</u>	<u>85,000</u>	<u>329,176</u>	<u>7,569,915</u>
Disbursements:				
Current:				
Instruction:				
Regular	239,117		66,169	305,286
Special	3,476,328		14,198	3,490,526
Support Services:				
Pupil	2,331,096		44,506	2,375,602
Instructional Staff	452,412	98,815	54,143	605,370
Governing Board	12,044			12,044
Administration	332,035			332,035
Fiscal	181,268			181,268
Business	948			948
Operation and Maintenance of Plant	375			375
Pupil Transportation	6,850		134,541	141,391
Central			1,800	1,800
Operation of Non-Instructional Services	1,376			1,376
Total Disbursements	<u>7,033,849</u>	<u>98,815</u>	<u>315,357</u>	<u>7,448,021</u>
Excess of Receipts Over/(Under) Disbursements	<u>121,890</u>	<u>(13,815)</u>	<u>13,819</u>	<u>121,894</u>
Other Financing Sources:				
Refund of Prior Year Disbursements	22,226			22,226
Total Other Financing Sources	<u>22,226</u>			<u>22,226</u>
Net Change in Fund Balances	144,116	(13,815)	13,819	144,120
Fund Balances - Beginning of Year	<u>490,514</u>	<u>123,052</u>	<u>56,999</u>	<u>670,565</u>
Fund Balances - End of Year	<u>\$634,630</u>	<u>\$109,237</u>	<u>\$70,818</u>	<u>\$814,685</u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS - FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Equity Pooled in Cash and Cash Equivalents	\$4,519,090
Total Assets	<u>4,519,090</u>
Net Assets:	
Held in Trust for:	
Others	40,511
Pool Participants	4,478,579
Total Net Assets	<u>\$4,519,090</u>

See accompanying notes to the basic financial statements.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

The Allen County Educational Service Center (the 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 Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (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.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related activities.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organization's governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt, or the levying of taxes. The Service Center has no component units.

The Service Center is associated with one jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 8 and 9 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Service Center does not apply FASB statements issued after November 30, 1989. Following are the more significant of the Service Center's accounting policies.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

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

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets-Cash Basis and Statement of Activities-Cash Basis display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

2. Fund Financial Statements

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- c. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- d. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all funds.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds:

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

SESA Fund - The SESA (Science Enhancement for Science Advancement) Fund is used to enhance science learning in schools. SESA is a partnership between the Allen County Schools, Lima City Schools and industry partners. The partners have a committee that meets 1-2 times per year to determine the budget and which companies will be asked to contribute. The fund pays for COSI and science experiments to be brought into the classrooms for demonstrations as well as the substitute for the teacher in residence who manages and organizes the events of SESA.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The Service Center's agency funds are established for employee benefit plans, academic quiz bowl activities, and the regional school improvement team.

C. Budgetary Process

There are no budgetary requirements for educational service centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures which are reported and defined in the supplemental information of this report.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Schools' Health Benefit Plan Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2010, 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 operated in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2010.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2010 were \$2,810, which included \$621 assigned from other funds.

E. Capital Assets

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

F. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Service Center.

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

H. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2010, these funds include the Preschool Grant.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets and displayed in separate components:

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have any assets restricted by enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. The Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. As described further in Note 4, the Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

N. Implementation of New Accounting Policies

For the year ended June 30, 2010, the Service Center has implemented GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets,"* GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments,"* and GASB Statement No. 58, *"Accounting and Financial Reporting for Chapter 9 Bankruptcies."*

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Service Center.

3. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to passbook accounts.

Interim 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Protection of the Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificate of deposit or savings deposit accounts including, but not limited to passbook savings accounts,
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio)
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
9. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit 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 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 105 percent of the deposits being secured.

At June 30, 2010, the carrying amount of the Service Center's deposits was \$5,319,950 and the bank balance was \$6,003,189. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$3,435,504 was covered by federal depository insurance and \$2,567,685 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

As of June 30, 2010, the Service Center's investments were \$13,825 in STAROhio. STAROhio is reported at fair value.

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The Service Center's investments are invested in STAROhio with a credit rating of AAAM with Standard and Poor's and is held by the investment's counterparty and not in the name of the Service Center.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. 100 percent of the Service Center's investments are in STAROhio.

4. PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. 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) (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The 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. This amount will be recovered by the State from the 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.

B. State Foundation Distributions

1. Amounts Paid by the Local School Districts

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 ADM 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 contract services.

2. Amounts Paid under Contract by Local School Districts

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$1,059,962
Automobile Liability	3,000,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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

The Service Center participates in the Ohio School Risk Sharing 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.

B. Workers' Compensation

For fiscal year 2010, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The Service 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 Service 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

5. RISK MANAGEMENT (Continued)

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by CBA Benefit Services and Allied Benefit Systems, Inc. In fiscal year 2010, the Service Center contributed \$4,350 to the life insurance plan and \$36,700 to the cafeteria 125 flexible plan.

6. PENSION PLANS

A. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. For fiscal year 2010, it was determined the employer contribution rate to pension and death benefits to be 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board.

The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$121,528, \$80,292, and \$71,765 respectively. The Service Center has paid 95 percent of the contribution for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008, respectively.

B. State Teachers Retirement System

The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. PENSION PLANS (Continued)

member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB Plan portion of the Combined Plan payment is payable to a member on or after age sixty; the DB Plan portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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, 2010, plan members were required to contribute 10 percent of their annual covered salaries. For fiscal year 2010, the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 employer contributions.

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$521,143, \$490,445, and \$479,203, respectively; 95 percent has been contributed for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008, respectively. Contributions to the DC and Combined Plans for fiscal year 2010 were \$27,875 made by the Service Center and \$19,911 made by the plan members.

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, 2010, no members of the Governing Board have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

7. POST-EMPLOYMENT BENEFITS

The Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("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 reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76 percent. The Service Center's contributions for the fiscal years ended June 30, 2010, 2009 and 2008 were \$7,227, \$6,625 and \$5,171, respectively. The Service Center has paid 95 percent of the contribution for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008, respectively.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation was .46 percent. For fiscal year ended June 30, 2009, the healthcare allocation was 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care fund for the fiscal years ended June 30, 2010, 2009, and 2008 were \$35,134, \$36,745 and \$32,749, respectively. The Service Center has paid 95 percent of the contribution for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of a Defined Benefit, a self-directed Defined Contribution, and a Combined Plan that is a hybrid of Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to the 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care cost in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate establish under Ohio Law. The Service Center's contributions for post-employment health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$40,088, \$39,179 and \$38,237, respectively; 95 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

8. JOINTLY GOVERNED ORGANIZATION

A. Northwest Ohio Area Computer Services Cooperative

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

9. INSURANCE PURCHASING POOLS

A. Ohio Risk Sharing Authority

The Service Center participates in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. ORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The ORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the ORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Ohio School Boards Association Workers' Compensation Group Rating Program

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

C. Allen County Schools Health Benefit Plan

The Service 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, and Allied Benefit Systems Inc., concerning aspects of the administration of the Trust. Financial information can be obtained from Brian Rockhold, who serves as Chairman, at the Allen County Educational Service Center, 1920 Slabtown Rd, Lima, Ohio 45804.

10. OPERATING LEASES

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2005 for a term of 60 months with monthly payments of \$12,917. Payments are made from the general fund and totaled \$155,000 for fiscal year 2010.

The Service Center is obligated under a five year operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights. The lease is for a term of 3,840,000 total aggregate copies and a minimum annual commitment of 750,000 aggregate copies at a price of \$0.0228 per copy. The lease was effective December 29, 2006. Lease payments are made to Perry Corporation and totaled \$16,053 for fiscal year 2010. Payments are allocated to the funds which use the copiers.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

11. CONTINGENCIES

Grants - The 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 terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2010.

12. CONTRACTUAL COMMITMENTS

At June 30, 2010 the Service Center had the following outstanding contractual commitment:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/10</u>
Megan Kathleen Best	Speech Consultant	\$23,520	\$22,344

13. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2010, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the service Center.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Intergovernmental			\$1,066,554	
Interest			2,810	
Tuition and Fees			52,702	
Extracurricular Activities			1,842	
Contract Services			5,964,246	
Miscellaneous			67,585	
Total Receipts			<u>7,155,739</u>	
Disbursements:				
Current:				
Instruction:				
Regular	\$308,004	\$308,004	243,117	\$64,887
Special	4,032,405	3,885,055	3,479,476	405,579
Support Services:				
Pupil	2,313,195	2,477,762	2,353,735	124,027
Instructional Staff	577,492	571,441	452,612	118,829
Board of Education	26,225	26,225	12,532	13,693
Administration	405,726	412,358	334,503	77,855
Fiscal	196,776	196,776	181,268	15,508
Business	2,500	2,500	948	1,552
Operation and Maintenance of Plant	923	923	375	548
Pupil Transportation	7,850	7,850	6,850	1,000
Operation of Non-Instructional Services	2,015	2,315	1,376	939
Total Disbursements	<u>\$7,873,111</u>	<u>\$7,891,209</u>	<u>7,066,792</u>	<u>\$824,417</u>
Excess of Receipts Over (Under) Disbursements			<u>88,947</u>	
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements			22,226	
Total Other Financing Sources (Uses)			<u>22,226</u>	
Net Change in Fund Balance			111,173	
Fund Balance - Beginning of Year			456,758	
Prior Year Encumbrances Appropriated			<u>33,756</u>	
Fund Balance - End of Year			<u>\$601,687</u>	

See accompanying notes to the budgetary comparison schedule.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
SESA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts			Positive (Negative) Variance with Final Budget
	Original	Final	Actual	Final Budget
Receipts:				
Gifts and Donations			\$85,000	
Total Receipts			85,000	
Disbursements:				
Current:				
Support Services:				
Instructional Staff	\$125,092	\$192,552	107,515	\$85,037
Total Disbursements	\$125,092	\$192,552	107,515	\$85,037
Excess of Receipts (Under) Disbursements			(22,515)	
Net Change in Fund Balance			(22,515)	
Fund Balance - Beginning of Year			100,675	
Prior Year Encumbrances Appropriated			22,377	
Fund Balance - End of Year			\$100,537	

See accompanying notes to the budgetary comparison schedule.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - BASIS OF BUDGETING

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

NOTE B - GENERAL BUDGET POLICIES

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Governing Board does not budget receipts.

The primary level of budget control established by the Governing Board is at the fund level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budget basis and reserves that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

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. Encumbrance appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Budgetary Comparison Schedules for the General Fund and SESA Fund are presented as supplementary information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE C - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedules presented for the General and SESA Funds are prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as an assigned fund balance (cash basis).

The adjustment necessary to convert the results of operations for the year on the budget basis to the cash basis are as follows:

Net Change in Fund Balance		
	General Fund	SESA Fund
Budget basis	\$601,687	\$100,537
Adjustment for encumbrances	32,943	8,700
Cash basis	\$634,630	\$109,237

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Dave Yost • Auditor of State

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

Allen County Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, (the Service Center) as of and for the fiscal years ended June 30, 2011 and 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 12, 2012, wherein we noted the School District uses a comprehensive accounting basis other than 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 Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Service Center's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated April 12, 2012.

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

April 12, 2012

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2011 AND JUNE 30, 2010

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

FINDING NUMBER 2011-01

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 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 Adm. Code Section 117-2-03(B) requires the Service Center to file annual financial reports which are prepared using generally accepted accounting principles. However, the Service Center prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements 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 Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Service Center should prepare its financial statements according to generally accepted accounting principles to provide any user with more meaningful and useful financial statements.

OFFICIALS RESPONSE:

Due to financial constraints the Allen County ESC is unable to convert to the generally accepted accounting principles (GAAP). Conversion to GAAP would be an extremely expensive process. The Allen County ESC does utilize the Auditor of State's Uniform School Accounting System and respects the GAAP reporting requirements. However, GAAP reporting is a method of reporting liabilities and debts that the ESC does not incur. We do not own buildings, land or buses. Furthermore we do not pass levies or take out loans. Consequently, our financial status does not warrant the expense of converting to GAAP.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011 AND JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2009-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code 117-2-03(B) – Failure to prepare financial statements in accordance with Generally Accepted Accounting Principles.	No	Repeated as Finding 2011-01
2009-002	Accuracy of Financial Statement Compilation and Support	Partially	Included in separate letter to management.



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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
MAY 15, 2012