



**Auditor of State  
Betty Montgomery**



**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the Belmont Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on basis of accounting in accordance with standards established by the Auditor of State, for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances and reserves for encumbrances of the Belmont Educational Service Center, Belmont County, as of June 30, 2004, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2005, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

January 14, 2005

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS, AND FUND CASH BALANCES  
ALL FUND TYPES  
AS OF JUNE 30, 2004**

Cash and Cash Equivalents	\$280,009
Investments:	
STAROhio	<u>30,036</u>
<b>Total</b>	<b><u><u>\$310,045</u></u></b>

**CASH BALANCES BY FUND TYPE**

<b>Governmental Funds:</b>	
General Fund	\$272,583
Special Revenue Funds	6,847
<b>Proprietary Fund:</b>	
Internal Service Funds	<u>30,615</u>
<b>Total</b>	<b><u><u>\$310,045</u></u></b>

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
<b>Cash Receipts:</b>			
Receipts from Local Sources:			
Earnings on Investments	\$2,201	\$	\$2,201
Charges for Services	930,158		930,158
Miscellaneous	535		535
Receipts from State Sources:			
Unrestricted Grants-in-Aid	549,697		549,697
Restricted Grants-in-Aid		6,190	6,190
Receipts from Federal Sources:			
Restricted Grants-in-Aid		46,351	46,351
Total Cash Receipts	<u>1,482,591</u>	<u>52,541</u>	<u>1,535,132</u>
<b>Cash Disbursements:</b>			
Instruction:			
Special	354,394	42,848	397,242
Supporting Services:			
Pupils	297,944		297,944
Instructional Staff	421,652		421,652
Board of Education	22,559		22,559
Administration	219,278	3,715	222,993
Fiscal Services	61,202		61,202
Central		3,990	3,990
Total Cash Disbursements	<u>1,377,029</u>	<u>50,553</u>	<u>1,427,582</u>
Excess of Cash Receipts Over/(Under)			
Cash Disbursements	105,562	1,988	107,550
Fund Cash Balances, July 1	<u>167,021</u>	<u>4,859</u>	<u>171,880</u>
<b>Fund Cash Balances, June 30</b>	<b><u>\$272,583</u></b>	<b><u>\$6,847</u></b>	<b><u>\$279,430</u></b>
Reserve for Encumbrances, June 30	<u>\$523</u>	<u>\$3,306</u>	<u>\$3,829</u>

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



**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Proprietary Fund Type Internal Service</b>
<b>Operating Cash Receipts:</b>	
Charges to Other Funds	\$33,648
Total Operating Cash Receipts	33,648
<b>Operating Cash Disbursements:</b>	
Purchased Services	67,371
Supplies and Materials	650
Total Operating Cash Disbursements	68,021
Operating Loss	(34,373)
<b>Nonoperating Cash Receipts:</b>	
Earnings on Investments	447
Miscellaneous	250
Total Nonoperating Cash Receipts	697
Net Loss	(33,676)
Fund Cash Balances, July 1	64,291
<b>Fund Cash Balances, June 30</b>	<b>\$30,615</b>

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
ALL BUDGETED FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$1,420,545	\$1,482,591	\$62,046
Special Revenue	56,432	52,541	(3,891)
<b>Proprietary</b>			
Internal Service	0	34,345.00	34,345
<b>Totals (Memorandum Only)</b>	<b><u>\$1,476,977</u></b>	<b><u>\$1,569,477</u></b>	<b><u>\$92,500</u></b>

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES  
COMPARED WITH EXPENDITURE AUTHORITY  
ALL BUDGETED FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Fund Types/Funds</u>	<u>Total Appropriations</u>	<u>Total Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$1,406,616	\$1,377,552	\$29,064
Special Revenue	55,534	53,859	1,675
<b>Proprietary</b>			
Internal Service	<u>71,247</u>	<u>68,021</u>	<u>3,226</u>
<b>Totals (Memorandum Only)</b>	<b><u><u>\$1,533,397</u></u></b>	<b><u><u>\$1,499,432</u></u></b>	<b><u><u>\$33,965</u></u></b>

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

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**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The Belmont Educational Service Center (Educational Service Center), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a combined Educational Service Center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Barnesville Exempted Village, Bellaire Local, Bridgeport Exempted Village, Martins Ferry City, Shadyside Local, St. Clairsville-Richland City, and Union Local School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. As of June 30, 2004, the Educational Service Center employed 23 certificated and 7 non-certificated employees.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Educational Service Center chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**B. Pooled Cash and Investments**

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**B. Pooled Cash and Investments (Continued)**

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

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

**C. Fund Accounting**

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

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

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

**Governmental Fund Types**

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

**General Fund**

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

**Special Revenue Funds**

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

**Proprietary Fund Type**

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**C. Fund Accounting (Continued)**

**Internal Service Funds**

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

**D. Budgetary Data**

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

**1. Appropriations**

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

The budget figures which appear in the statements of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds and is not required by statute.

**2. Encumbrances**

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

**3. Lapsing of Appropriations**

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

**E. Property, Plant and Equipment**

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

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**F. Accumulated Unpaid Vacation and Sick Leave**

Accumulated unpaid vacation and sick leave are not accrued under the cash basis of accounting used by the Educational Service Center. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the value of these benefits as of June 30, 2004.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

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

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;



**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

At June 30, 2004, the Educational Service Center's Internal Service Fund had a balance of \$30,010 with OME-RESA, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

**A. Deposits**

At June 30, 2004, the carrying amount of the Educational Service Center's deposits was \$249,999 and the bank balance was \$256,575. Of the bank balance, \$175,000 was covered by federal depository insurance and \$81,575 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**B. Investments**

The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The Educational Service Center's investment in STAROhio has a market value of \$30,036 as of June 30, 2004.

**4. PRIMARY REVENUE SOURCES**

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

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

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

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

The final part of this section is the guarantee amount paid to Educational Service Centers serving less than 10,000 students or to an Educational Service Center that otherwise would have experienced a reduction in State funding because a local district had changed status to a city district.

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.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. PRIMARY REVENUE SOURCES (Continued)**

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

**State Foundation Distributions – Amounts Paid under Contract by Locals.** This section has one part. It represents amounts due to the Educational Service Center for services provided under contract with participating districts which the Educational 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 charges for services.

**5. RISK MANAGEMENT**

**A. Property and Liability**

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

Commercial property coverage is provided by the Midwestern Indemnity Company. During fiscal year 2004, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium amount to the OSP (See Note 10). The types and amounts of coverage provided by the Ohio School Plan are as follows:

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

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

Educational General Liability:

Bodily Injury and Property Damage - Each Occurrence Limit and Sexual Abuse Injury - Each Sexual Abuse Offense Limit (\$0 Deductible)	\$1,000,000
Personal and Advertising Injury - Each Offense Limit	\$1,000,000
Fire Damage - Any One Event Limit	\$500,000
Medical Expense - Any One Person Limit	\$10,000
Each Accident Limit	\$10,000
General Aggregate Limit	\$3,000,000
Products-Completed Operations Aggregate Limit	\$1,000,000
Employers Liability - Stop Gap - Occurrence From	
Bodily Injury by Accident - Each Accident Limit	\$1,000,000
Bodily Injury by Disease - Endorsement Limit	\$1,000,000
Bodily Injury by Disease - Each Employee Limit	\$1,000,000
Employee Benefits Liability - Claims Made From	
Each Offense Limit	\$1,000,000
Aggregate Limit	\$3,000,000
Educational Legal Liability - Claims Made From	
Errors and Omissions Injury Limit (\$2,500 Deductible)	\$1,000,000
Errors and Omissions Injury Aggregate Limit	\$2,000,000
Employment Practices Injury Limit (\$2,500 Deductible)	\$1,000,000
Employment Practices Injury Aggregate Limit	\$2,000,000

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

**B. Workers' Compensation**

For fiscal year 2004, the Educational Service Center participated in the Ohio School Board Association Workers' Compensation Group Rating Program (G.R.P.), an insurance purchasing pool (see Note 10). The intent is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the pool. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the pool. Each participant pays its workers' compensation premium to the State based on the rate for the G.R.P. rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the G.R.P. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the G.R.P. Participation is limited to school districts that can meet the G.R.P.'s selection criteria. The firm of Sheakley Uniservice, Inc., provides administrative, cost control and actuarial services to the Educational Service Center.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

**C. Employee Medical Benefits**

The Educational Service Center is self insured for prescription, vision, life and dental insurance. The Educational Service Center is a member of the OME-RESA claims servicing pool. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. These premium costs are recovered by costs from charges to other funds based on an actuarially determined cost per employee. The claims liability of \$745 below is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, be reported.

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

	<u>2004</u>	<u>2003</u>
Cash and investments	\$30,010	\$63,287
Actuarial liabilities	\$745	\$1,728

**6. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center's rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$13,693, \$14,422, and \$10,312 respectively.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**B. State Teachers Retirement System**

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

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$107,915, 106,165, and \$81,126, respectively.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one Board member of the Educational Service Center has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**7. POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$8,301 for fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$10,137.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses before premium deduction. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. OTHER EMPLOYEE BENEFITS**

**Life Insurance**

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

**9. JOINTLY GOVERNED ORGANIZATION**

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

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

**10. PUBLIC ENTITY POOLS**

**A. Insurance Purchasing Pools**

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

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

**Ohio School Plan**

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.



**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. PUBLIC ENTITY POOLS (Continued)**

**B. Claims Servicing Pool**

**The Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan**

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

**11. CONTINGENCIES**

**Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

**12. STATE SCHOOL FUNDING DECISION**

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

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

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

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**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the Belmont Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 14, 2005, wherein we noted that the Educational Service Center prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-001. We also noted a certain immaterial instance of noncompliance that we have reported to the Educational Service Center's management in a separate letter dated January 14, 2005.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the Educational Service Center's management in a separate letter dated January 14, 2005.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
www.auditor.state.oh.us

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

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

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

**Betty Montgomery**  
Auditor of State

January 14, 2005

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the 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 Administrative Code Section 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Educational Service Center prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center for its failure to file the required report.

We recommend the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with GAAP. The Educational Service Center should refer to Auditor of State Bulletin 2003-006 which clarifies the Auditor of State's position on GAAP reporting.

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <b><i>Explain:</i></b>
2003-001	Ohio Admin. Code Section 117-2-03 (B) for not filing annual financial statements in accordance with generally accepted accounting principles.	No	Not Corrected; Reissued as finding number 2004-001.
2003-002	Ohio Rev. Code Section 5705.41(D) for no certification of available funds by Treasurer prior to incurring obligations.	No	Partially Corrected; We issued this noncompliance citation in the management letter.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**BELMONT EDUCATIONAL SERVICE CENTER  
BELMONT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 3, 2005**