



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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 Educational Service Center, Allen County, (the Service Center), as of and for the years ended June 30, 2009 and 2008, 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 modified 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 modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, as of the years ended June 30, 2009 and 2008, and the respective changes in modified cash financial position for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009, 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.

Management's discussion and analysis and the respective schedules of budgetary comparisons for the General and the Science Enhancement for Science Advancement (SESA) Funds are not a required part of the basic financial statements but are supplemental information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplemental information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

December 4, 2009

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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, 2009. 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 2009 are as follows:

- General Receipts accounted for \$1,160,875 or 16 percent of all receipts. Charges for Services and Sales, and Operating Grants and Contributions accounted for \$5,932,371 or 84 percent of all receipts.
- Total program expenses were \$7,144,262 for all governmental activities.
- In total, net assets decreased \$51,016.

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 2009, 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 modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified 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 and investments. 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 modified cash basis of accounting.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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 2009?" 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 fund. 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 - Most 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 modified 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 – Fiduciary funds are used to account for resources held for the benefit of parties outside the Service Center. These funds are not reflected in the government-wide financial statements because the resources are not available to support the Service Center's own programs. These funds also use the modified cash basis of accounting.

Reporting the Service Center's Fiduciary Responsibilities

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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

The Service Center As A Whole

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for 2009 compared to 2008:

(Table 1)
Net Assets – Modified Cash Basis

	Governmental Activities	
	2009	2008
Assets		
Equity in Pooled Cash and Cash Equivalents	\$670,565	\$721,581
Total Assets	<u>670,565</u>	<u>721,581</u>
Net Assets		
Restricted for Other Purposes	180,051	176,191
Unrestricted	<u>490,514</u>	<u>545,390</u>
Total Net Assets	<u>\$670,565</u>	<u>\$721,581</u>

Net assets of the governmental activities decreased \$51,016, which represents a 7 percent decrease from fiscal year 2008. The decrease is the result of the continual increase in costs of providing instruction. During fiscal year 2009, funding for instruction was \$486,926 under the disbursements.

A portion of the Service Center's net assets, \$180,051, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$490,514 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal year 2009 and 2008. 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	
	2009	2008
Receipts:		
Program Receipts:		
Charges for Services	\$5,427,060	\$4,897,545
Operating Grants	505,311	1,274,409
General Receipts:		
Grants and Entitlements	1,082,373	395,108
Interest	6,159	25,790
Miscellaneous	72,343	108,676
Total Receipts	<u>7,093,246</u>	<u>6,701,528</u>
Program Disbursements:		
Instruction	4,424,226	4,075,325
Support Services	2,716,182	2,665,447
Non-Instructional	3,854	7,825
Capital Outlay		57,873
Total Disbursements	<u>7,144,262</u>	<u>6,806,470</u>
Decrease in Net Assets	<u>(\$ 51,016)</u>	<u>(\$ 104,942)</u>

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

During fiscal year 2009, the costs of salary and other instructional expenses increased. The additional disbursements are reflected in the decrease in net assets and cash as of June 30, 2009.

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 \$5.9 million in fiscal year 2009. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants and Contributions were 84 percent of total receipts in 2009.

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**

	2009		2008	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$4,424,226	\$486,926	\$4,075,325	\$164,091
Support Services:				
Pupil and Instructional Staff	2,084,520	239,520	1,987,205	171,639
Board of Education, Administration				
Fiscal and Business	482,729	482,729	526,446	223,215
Operation and Maintenance of Plant	375	375	356	356
Pupil Transportation	141,358	(5,713)	151,440	12,517
Central	7,200	4,200		(3,000)
Operation of Non-instructional Services	3,854	3,854	7,825	7,825
Capital Outlay			57,873	57,873
Total	<u>\$7,144,262</u>	<u>\$1,211,891</u>	<u>\$6,806,470</u>	<u>\$634,516</u>

Instruction and pupil and instructional support services comprise 91 percent of governmental program disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 2 percent of governmental program disbursements. Board of Education, administration, fiscal and business charges totaled 7 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 \$613,566, or 91 percent of the \$670,565 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2009 decreased \$54,876 to \$490,514, \$456,758 of which is an unreserved balance. General Fund receipts for fiscal year 2009 were \$6,721,315, or 95 percent of total governmental receipts of \$7,093,246. General fund disbursements for fiscal year 2009 were \$6,776,191, or 95 percent of total governmental disbursements of \$7,144,262.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

SESA Fund - The Science Enhancement 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 Center of Science and Industry (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 2009, the fund balance decreased \$1,925. Fund balance at June 30, 2009 was \$123,052, including \$100,675, or 82 percent, of unreserved fund balance. The SESA fund balance comprises 18 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 Chapter 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 2009, the Service Center did not significantly modify its general fund or SESA fund budgets. 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 2009 were approximately \$6.8 million, approximately \$895,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized.

For the SESA fund, actual disbursements on the budget basis for fiscal year 2009 were approximately \$54,000 less than the final budgeted disbursements due to efforts to reduce operating costs.

Current Issues

Even though the Allen County Educational 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 Service Centers, this year. 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

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, Ohio 45801-3309.

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2009

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

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$341,630		\$65,405	(\$276,225)
Special	4,082,596	\$3,856,755	15,140	(210,701)
Support Services:				
Pupil	1,585,760	1,258,198	9,629	(317,933)
Instructional Staff	498,760	269,902	307,271	78,413
Governing Board	13,859			(13,859)
Administration	316,354			(316,354)
Fiscal	151,610			(151,610)
Business	906			(906)
Operation and Maintenance of Plant	375			(375)
Pupil Transportation	141,358	42,205	104,866	5,713
Central	7,200		3,000	(4,200)
Operation of Non-Instructional Services	3,854			(3,854)
Total Governmental Activities	\$7,144,262	\$5,427,060	\$505,311	(1,211,891)
General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				1,082,373
Interest				6,159
Miscellaneous				72,343
Total General Receipts				1,160,875
Change in Net Assets				(51,016)
Net Assets - Beginning of Year				721,581
Net Assets - End of Year				\$670,565

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$490,514	\$123,052	\$56,999	\$670,565
Total Assets	<u>490,514</u>	<u>123,052</u>	<u>56,999</u>	<u>670,565</u>
Fund Balances:				
Reserved for Encumbrances	33,756	22,377	3,915	60,048
Unreserved, Undesignated, Reported in:				
General Fund	456,758			456,758
Special Revenue Funds		100,675	53,084	153,759
Total Fund Balances	<u>\$490,514</u>	<u>\$123,052</u>	<u>\$56,999</u>	<u>\$670,565</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Intergovernmental	\$1,257,913		\$260,226	\$1,518,139
Interest	6,159			6,159
Tuition and Fees	16,747		42,205	58,952
Extracurricular Activities	1,354			1,354
Contract Services	5,366,754			5,366,754
Gifts and Donations		\$69,500		69,500
Miscellaneous	64,498			64,498
Total Receipts	<u>6,713,425</u>	<u>69,500</u>	<u>302,431</u>	<u>7,085,356</u>
Disbursements:				
Current:				
Instruction				
Regular	275,510		66,120	341,630
Special	4,079,596		3,000	4,082,596
Support Services:				
Pupil	1,583,291		2,469	1,585,760
Instructional Staff	339,639	71,425	87,696	498,760
Governing Board	13,859			13,859
Administration	316,354			316,354
Fiscal	151,610			151,610
Business	906			906
Operation and Maintenance of Plant	375			375
Pupil Transportation	11,197		130,161	141,358
Central			7,200	7,200
Operation of Non-Instructional Services	3,854			3,854
Total Disbursements	<u>6,776,191</u>	<u>71,425</u>	<u>296,646</u>	<u>7,144,262</u>
Excess of Receipts Over/(Under) Disbursements	<u>(62,766)</u>	<u>(1,925)</u>	<u>5,785</u>	<u>(58,906)</u>
Other Financing Sources				
Refund of Prior Year Disbursements	7,890			7,890
Net Change in Fund Balances	(54,876)	(1,925)	5,785	(51,016)
Fund Balances - Beginning of Year	<u>545,390</u>	<u>124,977</u>	<u>51,214</u>	<u>721,581</u>
Fund Balances - End of Year	<u>\$490,514</u>	<u>\$123,052</u>	<u>\$56,999</u>	<u>\$670,565</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FUDICIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Agency</u>
Assets;	
Equity Pooled in Cash and Cash Equivalents	\$3,838,227
Cash and Cash Equivalents in Segregated Account	146,611
Investments	<u>2,024,452</u>
Total Assets	<u><u>6,009,290</u></u>
Net Assets:	
Held in Trust for:	
Others	50,740
Pool Participants	<u>5,958,550</u>
Total Net Assets	<u><u>\$6,009,290</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL DISTRICT 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 board of education (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

A. 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 Schools of 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 modified 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 modified 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 modified 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following are the more significant of the Service Center's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03(B) requires the Service Center to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified 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 modified 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-Modified Cash Basis and Statement of Activities-Modified 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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:

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

3. Governmental Funds/Governmental Activities - Governmental funds are those through which most 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 brought into the classrooms for demonstrations as well as the substitute for the teacher in residence whom 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.

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 Health Care Benefit Fund for which the Service Center serves as fiscal agent.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 2009, investments were limited to Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Bonds and STAR Ohio. With the exception of STAR Ohio these investments are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2009.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2009 were \$6,159, which included \$1,654 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 modified 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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 2009, this was 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:
 - 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.”
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 have been established for encumbrances.

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 receipts.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(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 certificates 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;

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio)
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

At June 30, 2009, the carrying amount of the Service Center's deposits was \$4,454,346 and the bank balance was \$5,735,430. 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, \$1,806,321 was covered by federal depository insurance and \$3,929,109 was collateralized but uninsured.

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.

B. Investments

Investments are reported at cost. As of June 30, 2009, the Service Center's investments were as follows:

	Market Value	Cost	% of Total	Maturities (at Cost)	
				< 1 yr	1-5 yrs
Federal National Mortgage Association	\$1,523,440	\$1,523,262	68.45%	\$507,467	1,015,795
Federal Home Loan Mortgage Corp.	503,065	501,190	22.52%	501,190	
Total Securities	<u>\$2,026,505</u>	<u>2,024,452</u>		<u>\$1,008,657</u>	<u>\$1,015,795</u>
STAR Ohio		201,057	9.03%		
Total Investments		<u>\$2,225,509</u>	<u>100.0%</u>		

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

C. 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.

D. 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."

Of the Service Center's investments, Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Star Ohio all have credit ratings of AAA with Standard and Poor's and are held by the investment's counterparty and not in the name of the Service Center.

E. Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. More than 5 percent of the Service Center's investments are in FHLB and FNMA bonds. These investments are 68.45 percent, 22.52 percent and 9.03 percent, respectively, of the Service Center's total investments for the amounts listed 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. PRIMARY RECEIPT SOURCES (Continued)

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 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

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 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 contract services.

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 2009, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$ 859,962
Automobile Liability	3,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. RISK MANAGEMENT (Continued)

The Service Center participates in the Schools of Ohio 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 2009, 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 and Company 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 2009, the Service Center contributed \$5,360 to the life insurance plan and \$34,300 to the cafeteria 125 flexible plan.

6. PENSION PLANS

A. School Employees Retirement System

Plan Description - 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. PENSION PLANS (Continued)

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*.

Funding Policy - 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The School District's contributions to SERS for pension obligations for the years ended June 30, 2009, 2008, and 2007 were \$80,292, \$71,765 and \$70,229, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description - The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a stand alone financial report that may be obtained by writing to the STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.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. Under ORC Chapter 3307, DB retirement plan benefits are available to any member whom either has: five years of service credit and attained age 60, twenty-five years of service credit and attained age 55, or thirty years of service credit regardless of age. Benefits are increased annually by 3 percent of the original base amount for the DB Plan participants.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices of the member. Under Revised Code Sections 3307.80 to 3307.89, 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. PENSION PLANS (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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. 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan.

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. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salary. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and the Service Center are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$490,445, \$479,203, and \$467,419, respectively; 83 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal years 2008 and 2009. Contributions to the DC and Combined Plans for fiscal year 2009 were \$9,144 made by the Service Center and \$18,885 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, 2009, no members of the Board of Education members have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits - In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

Medicare Part B 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 2009 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 2009, the actuarially required allocation is .75 percent. The Educational Service Center contributions for the years ended June 30, 2009, 2008 and 2007 were \$6,625, \$5,171, and \$4,776 respectively, which equaled the required contributions each year.

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 HMOs, PPOs, 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, 2009, the health care allocation is 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 2009, the minimum compensation level was established at \$35,800.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Service Center contributions assigned to health care for the years ended June 30, 2009, 2008, and 2007 were \$36,745, \$32,749, and \$23,316, 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*.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

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.

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 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

The Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$39,179, \$38,237, and \$37,365 respectively. 100 percent has been contributed for fiscal years 2009, 2008, and 2007.

8. JOINTLY GOVERNED ORGANIZATION

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, Mercer, 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. During fiscal year 2009, the Service Center paid \$8,354 to NOACSC for various services. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

9. INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority - The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA 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 SORSA'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 SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

9. INSURANCE PURCHASING POOLS (Continued)

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 and 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.

10. OPERATING LEASES

The Service Center was obligated under an operating lease agreement with the Allen County Board of County Commissioners 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 2009.

The Service Center is obligated under an 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 Corporations. Payments are allocated to the funds which use the copiers.

11. CONTRACTUAL COMMITMENTS

At June 30, 2009 the Service Center had the following outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/09</u>
COSI	COSI on Wheels	\$8,100	\$8,100
Lima City Schools	Substitute for teacher in residence	47,754	12,526
Lima Memorial Hospital	Bus driver physicals	9,800	7,850

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

12. 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, 2009

13. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Positive (Negative) Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Receipts:				
Intergovernmental			\$ 1,257,913	
Interest			6,159	
Tuition and Fees			16,747	
Extracurricular Activities			1,354	
Contract Services			5,366,754	
Miscellaneous			64,498	
Total Receipts			<u>6,713,425</u>	
Disbursements:				
Current:				
Instruction:				
Regular	\$275,285	\$299,265	275,512	\$23,753
Special	4,744,118	4,618,497	4,086,775	531,722
Support Services:				
Pupil	1,633,651	1,663,508	1,586,630	76,878
Instructional Staff	513,366	484,764	340,419	144,345
Board of Education	23,218	25,674	14,411	11,263
Administration	379,196	423,648	330,201	93,447
Fiscal	113,905	162,879	151,817	11,062
Business	2,500	2,500	906	1,594
Operation and Maintenance of Plant	2,243	2,243	375	1,868
Pupil Transportation	12,200	16,700	19,047	(2,347)
Operation of Non-Instructional Services	5,416	5,416	3,854	1,562
Total Disbursements	<u>\$ 7,705,098</u>	<u>\$ 7,705,094</u>	<u>6,809,947</u>	<u>\$895,147</u>
Excess of Receipts Over (Under) Disbursements			<u>(96,522)</u>	
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements			<u>7,890</u>	
Net Change in Fund Balance			(88,632)	
Fund Balance - Beginning of Year			518,757	
Prior Year Encumbrances Appropriated			<u>26,633</u>	
Fund Balance - End of Year			<u>\$456,758</u>	

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
SCIENCE ENHANCEMENT FOR SCIENCE ADVANCEMENT (SESA)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts			Positive (Negative) Variance with Final Budget
	Original	Final	Actual	
Receipts				
Gifts and Donations			\$69,500	
Total Receipts			69,500	
Disbursements:				
Current:				
Support Services:				
Instructional Staff	\$145,377	\$147,877	93,802	\$54,075
Total Disbursements	\$145,377	\$147,877	93,802	\$54,075
Excess of Receipts Over (Under) Disbursements			(24,302)	
Net Change in Fund Balance			(24,302)	
Fund Balance - Beginning of Year			115,896	
Prior Year Encumbrances Appropriated			9,081	
Fund Balance - End of Year			\$100,675	

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2009**

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.

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 revenues.

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 yearend 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 reappropriated.

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 supplemental information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- General Receipts accounted for \$529,574 of all receipts, or 8 percent. Charges for Services and Operating and Capital Grants account for \$6,171,954 or 92 percent of all receipts.
- Total program expenses were \$6,806,470 for all governmental activities.
- In total, net assets decreased \$104,942.

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 2008, the General Fund and SESA Fund are the most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified 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 modified cash basis of accounting.

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 2008?" The Statement of Net Assets and the Statement of Activities answer this question.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

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 38. Fund financial reports provide detailed information about the Service Center's major fund. The Service Center uses many funds to account for financial transactions. However, this fund financial statement focuses on the Service Center's most significant fund. The Service Center's major governmental funds are the General Fund and Science Enhancement for Science Advancement (SESA) Fund.

Governmental Funds - Most 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 modified 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 – Fiduciary Funds are used to account for resources held for the benefit of parties outside the Service Center. These funds are not reflected in the government-wide financial statements because the resources are not available to support the Service Center's own programs. These funds also use the modified cash basis of accounting.

Reporting the Service Center's Fiduciary Responsibilities

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 three agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 45. 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.

The Service Center As A Whole

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for 2008 compared to 2007:

(Table 1)
Net Assets – Modified Cash Basis

	Governmental Activities	
	2008	2007
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$721,581	\$826,523
Total Assets	<u>721,581</u>	<u>826,523</u>
Net Assets:		
Restricted for Other Purposes	176,191	136,439
Unrestricted	545,390	690,084
Total Net Assets	<u>\$721,581</u>	<u>\$826,523</u>

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Net assets of the governmental activities decreased \$104,942, which represents a 13 percent decrease from fiscal year 2007. The decrease is the result of the continual increase in costs of providing instruction. During fiscal year 2008, funding for instruction was \$164,091 under disbursements.

A portion of the Service Center's net assets, \$176,191, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$545,390 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal year 2008 and 2007. 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	
	2008	2007
Receipts:		
Program Receipts:		
Charges for Services	\$4,897,545	\$4,560,663
Operating Grants	1,274,409	971,677
General Receipts:		
Grants and Entitlements	395,108	685,900
Interest	25,790	61,189
Miscellaneous	108,676	9,067
Total Receipts	<u>6,701,528</u>	<u>6,288,496</u>
Program Disbursements:		
Instruction	4,075,325	3,749,229
Support Services	2,665,447	2,663,015
Non-Instructional	7,825	6,711
Capital Outlay	57,873	278,743
Total Disbursements	<u>6,806,470</u>	<u>6,697,698</u>
Decrease in Net Assets	<u>(\$ 104,942)</u>	<u>(\$ 409,202)</u>

During fiscal year 2008, in addition to salary increases, the Service Center finished remodeling the garages into classrooms. The additional disbursements are reflected in the decrease in net assets and cash as of June 30, 2008.

Governmental Activities

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 \$6.2 million in fiscal year 2008. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants were 92 percent of total receipts in 2008.

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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

**(Table 3)
Governmental Activities**

	2008		2007	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$4,075,325	\$164,091	\$3,749,229	\$ 162,713
Support Services:				
Pupil and Instructional Staff	1,987,205	171,639	2,049,149	355,140
Board of Education, Administration				
Fiscal and Business	526,446	223,215	478,555	361,773
Operation and Maintenance of Plant	356	356	318	318
Pupil Transportation	151,440	12,517	125,764	(6,269)
Central		(3,000)	9,229	6,229
Operation of Non-instructional Services	7,825	7,825	6,711	6,711
Capital Outlay	57,873	57,873	278,743	278,743
Total	<u>\$6,806,470</u>	<u>\$634,516</u>	<u>\$6,697,698</u>	<u>\$1,165,358</u>

Instruction and pupil and instructional support services comprise 89 percent of governmental program disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 2 percent of governmental program disbursements. Board of Education, administration, fiscal and business charges totaled 8 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 \$670,367, or 93 percent of the \$721,581 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2008 decreased \$144,694 to \$545,390, including \$518,757, or 95 percent of unreserved balance. General Fund receipts for fiscal year 2008 were \$6,314,359, or 94 percent of total governmental receipts of \$6,701,528. General fund disbursements for fiscal year 2008 were \$6,459,053, or 95 percent of total governmental disbursements of \$6,806,470.

SESA Fund - The Science Enhancement 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 2008, fund balance increased \$32,186. Fund balance at June 30, 2008 was \$124,977, including \$115,876, or 93 percent, of unreserved fund balance. The SESA fund balance comprises 17 percent of total governmental fund balances.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 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 2008, the Service Center did not significantly modify its general fund or SESA 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 2008 were approximately \$6.5 million, approximately \$905,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized.

For the SESA fund, actual disbursements on the budget basis for fiscal year 2008 were approximately \$104,045 less than the final budgeted disbursements due to efforts to reduce operating costs.

CURRENT ISSUES

Even though the Allen County Educational 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 \$6.50 per student from local schools, the \$37.00 per student from State Foundation Program and any grants secured. Those rates have been the same for the last decade and the Service Center does not anticipate any increase.

The current state of the economy is expected to create a decrease in foundation payments to the Service Center in fiscal year 2009.

The Service Center's largest receipt stream is the contracts secured 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. How the legislature plans to fund educational programs during a weakened economy remains a concern.

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, Ohio 45801-3309.

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EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$721,581
Total Assets	<u>721,581</u>
Net Assets:	
Restricted for Other Purposes	176,191
Unrestricted	545,390
Total Net Assets	<u>\$721,581</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$321,212		\$81,058	(\$240,154)
Special	3,754,113	3,119,695	710,481	76,063
Support Services:				
Pupil	1,469,002	1,084,294	2,000	(382,708)
Instructional Staff	518,203	355,230	374,042	211,069
Governing Board	12,782			(12,782)
Administration	410,368	303,231		(107,137)
Fiscal	102,404			(102,404)
Business	892			(892)
Operation and Maintenance of Plant	356			(356)
Pupil Transportation	151,440	35,095	103,828	(12,517)
Central			3,000	3,000
Operation of Non-Instructional Services	7,825			(7,825)
Capital Outlay	57,873			(57,873)
Total Governmental Activities	\$6,806,470	\$4,897,545	\$1,274,409	(634,516)
General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				395,108
Interest				25,790
Miscellaneous				108,676
Total General Receipts				529,574
Change in Net Assets				(104,942)
Net Assets - Beginning of Year				826,523
Net Assets - End of Year				\$721,581

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
JUNE 30, 2008**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$545,390	\$124,977	\$51,214	\$721,581
Total Assets	<u>545,390</u>	<u>124,977</u>	<u>51,214</u>	<u>721,581</u>
Fund Balances:				
Reserved for Encumbrances	26,633	9,081	3,005	38,719
Unreserved, Undesignated, Reported in:				
General Fund	518,757			518,757
Special Revenue Funds		115,896	48,209	164,105
Total Fund Balances	<u>545,390</u>	<u>124,977</u>	<u>51,214</u>	<u>721,581</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	General Fund	SESA Fund	All Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$1,317,445		\$280,222	\$1,597,667
Interest	25,790			25,790
Tuition and Fees	9,040		35,095	44,135
Extracurricular Activities	7,367			7,367
Contract Services	4,846,043			4,846,043
Gifts and Donations		\$71,850		71,850
Miscellaneous	95,086			95,086
Total Receipts	<u>6,300,771</u>	<u>71,850</u>	<u>315,317</u>	<u>6,687,938</u>
Disbursements:				
Current:				
Instruction:				
Regular	240,869		80,343	321,212
Special	3,754,113			3,754,113
Support Services:				
Pupil	1,467,402		1,600	1,469,002
Instructional Staff	391,969	39,664	86,570	518,203
Governing Board	12,782			12,782
Administration	410,368			410,368
Fiscal	102,404			102,404
Business	892			892
Operation and Maintenance of Plant	356			356
Pupil Transportation	12,200		139,240	151,440
Operation of Non-Instructional Services	7,825			7,825
Capital Outlay	57,873			57,873
Total Disbursements	<u>6,459,053</u>	<u>39,664</u>	<u>307,753</u>	<u>6,806,470</u>
Excess of Receipts Over/(Under) Disbursements	<u>(158,282)</u>	<u>32,186</u>	<u>7,564</u>	<u>(118,532)</u>
Other Financing Sources:				
Refund of Prior Year Disbursements	13,588		2	13,590
Total Other Financing Sources	<u>13,588</u>		<u>2</u>	<u>13,590</u>
Net Change in Fund Balances	(144,694)	32,186	7,566	(104,942)
Fund Balances - Beginning of Year	<u>690,084</u>	<u>92,791</u>	<u>43,648</u>	<u>826,523</u>
Fund Balances - End of Year	<u>\$545,390</u>	<u>\$124,977</u>	<u>\$51,214</u>	<u>\$721,581</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency</u>
Assets:	
Equity Pooled in Cash and Cash Equivalents	\$3,863,466
Equity Pooled in Cash and Cash Equivalents in Segregated Accounts	150,335
Investments	3,501,656
Total Assets	<u>7,515,457</u>
Net Assets:	
Held in Trust for:	
Others	77,085
Pool Participants	7,438,372
Total Net Assets	<u>\$7,515,457</u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL DISTRICT 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 board of education (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

A. 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 9 and 10 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 modified 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 modified 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 modified 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following are the more significant of the Service Center's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03(B) requires the Service Center to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified 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 modified 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-Modified Cash Basis and Statement of Activities-Modified 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 taxes, 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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:

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

The major funds of the financial reporting entity are described below:

- 3. Governmental Funds/Governmental Activities** - Governmental funds are those through which most 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 whom 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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 Health Care Benefit 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 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 2008, investments were limited to Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Bonds and STAR Ohio. With the exception of STAR Ohio, these investments are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2008.

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 2008 were \$25,790, which included \$6,295 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 modified 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2008, this was 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 7 and 8, 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.
 - b. **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 have been established for encumbrances.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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. The Service Center's program receipts are charges for service, operating and capital grants and contributions. All other governmental receipts are reported as general receipts.

3. IMPLEMENTATION OF NEW ACCOUNTING POLICIES

For the fiscal year ended June 30, 2008, the Service Center has implemented GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*, GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”*, GASB Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*, and GASB Statement No. 50, *“Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.”*

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, *“Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans”*, and GASB Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers”*, to conform with requirements of GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, and GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*.

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. 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 certificates 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;

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio)
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

At June 30, 2008, the carrying amount of the Service Center's deposits was \$4,375,047 and the bank balance was \$5,346,023. 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, \$600,000 was covered by federal depository insurance and \$4,746,023 was collateralized but uninsured.

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.

B. Investments

Investments are reported at cost. As of June 30, 2008, the Service Center's investments were as follows:

	<u>Market Value</u>	<u>Cost</u>	<u>% of Total</u>	<u>Maturities (at Cost) 1-5 yrs</u>
Federal Home Loan Bank	\$1,990,630	2,000,896	51.81%	\$2,000,896
Federal Home Loan Mortgage Corp.	1,503,550	1,500,760	38.86%	1,500,760
Total Securities	<u>\$3,494,180</u>	<u>3,501,656</u>		<u>\$3,501,656</u>
STAR Ohio		360,335	9.33%	0
Total Investments		<u>\$3,861,991</u>	<u>100.0%</u>	

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

C. 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.

D. 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."

Of the Service Center's investments, Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and STAR Ohio all have credit ratings of AAA with Standard and Poor's and are held by the investment's counterparty, and not in the name of the Service Center.

E. Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. More than 5 percent of the Service Center's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and STAR Ohio. These investments are 51.81 percent, 38.86 percent and 9.33 percent, respectively, of the Service Center's total investments for the amounts listed above.

5. 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

5. PRIMARY RECEIPT SOURCES (Continued)

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 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 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 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.

6. 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 2008, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$ 829,525
Automobile Liability	2,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000
Errors and Omissions	1,000,000
Crime Cover	50,000

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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. RISK MANAGEMENT (Continued)

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 2008, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). 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, the Health Benefit Plan disclosed in Note 10, the Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Allied Benefit Systems, Inc. In fiscal year 2008, the Service Center contributed \$5,211 to the life insurance plan and \$29,100 to the cafeteria 125 flexible plan.

7. PENSION PLANS

A. School Employee Retirement System

Plan Description - The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. PENSION PLANS (Continued)

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 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$71,765, \$70,229 and \$57,855 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 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 portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. PENSION PLANS (Continued)

Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$479,203, \$467,419, and \$415,204 respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$8,825 made by the Service Center and \$17,873 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 of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$11,652.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Service Center's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$32,749, \$23,316, and \$20,190 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,171, \$4,776, and \$4,605 respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

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.

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 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$38,237, \$37,365, and \$33,254 respectively; 100 percent for fiscal years 2008, 2007, and 2006.

9. JOINTLY GOVERNED ORGANIZATIONS

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, Mercer, 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.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

10. INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA 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 SORSA'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 SORSA 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, Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

11. OPERATING LEASES

The Service Center is obligated under an operating lease agreement with the Allen County Board of County Commissioners 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 2008.

The Service Center is obligated under an 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 \$19,562 for fiscal year 2008. Payments are allocated to the funds which use the copiers.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

12. 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, 2008.

13. CONTRACTUAL COMMITMENTS

At June 30, 2008 the Service Center had the following outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/08</u>
COSI	COSI on Wheels	\$7,700	\$7,700
Lima City Schools	Substitute for teacher in residence	47,754	35,326
Lima Memorial Hospital	Bus driver physicals	10,000	7,200

14. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts:				
Intergovernmental			\$1,317,445	
Interest			25,790	
Tuition and Fees			9,040	
Extracurricular Activities			7,367	
Contract Services			4,846,043	
Miscellaneous			95,086	
Total Receipts			6,300,771	
Disbursements:				
Current:				
Instruction:				
Regular	\$292,060	\$313,295	241,507	\$71,788
Special	4,012,901	4,139,481	3,758,809	380,672
Support Services:				
Pupil	1,561,393	1,599,670	1,472,571	127,099
Instructional Staff	497,027	504,015	394,927	109,088
Board of Education	25,994	26,649	13,401	13,248
Administration	428,887	464,062	414,950	49,112
Fiscal	113,328	113,358	102,800	10,558
Business	2,500	2,500	892	1,608
Operation and Maintenance of Plant	2,243	2,243	356	1,887
Pupil Transportation	28,150	28,150	19,400	8,750
Operation of Non-Instructional Services	9,874	11,033	8,200	2,833
Capital Outlay	392,385	186,493	57,873	128,620
Total Disbursements	\$7,366,742	\$7,390,949	6,485,686	\$905,263
Excess of Receipts Over (Under) Disbursements			(184,915)	
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements			13,588	
Total Other Financing Sources (Uses)			13,588	
Net Change in Fund Balance			(171,327)	
Fund Balance - Beginning of Year			571,228	
Prior Year Encumbrances Appropriated			118,856	
Fund Balance - End of Year			\$518,757	

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
SCIENCE ENHANCEMENT FOR SCIENCE ADVANCEMENT (SESA)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Gifts and Donations			\$71,850	
Total Receipts			<u>71,850</u>	
Disbursements:				
Current:				
Support Services				
Instructional Staff	\$152,791	\$152,790	48,745	\$104,045
Total Disbursements	<u>\$152,791</u>	<u>\$152,790</u>	<u>48,745</u>	<u>\$104,045</u>
Net Change in Fund Balance			23,105	
Fund Balance - Beginning of Year			53,103	
Prior Year Encumbrances Appropriated			<u>39,688</u>	
Fund Balance - End of Year			<u>\$115,896</u>	

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2008**

BUDGETARY

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.

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 revenues.

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 yearend 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 reappropriated.

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

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Mary Taylor, CPA

Auditor of State

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

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 Educational Service Center, Allen County, (the Service Center) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 4, 2009, wherein, we noted the Service Center uses a comprehensive basis of accounting 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 Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2009-002 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted a certain internal control matter that we reported to the Service Center's management in a separate letter dated December 4, 2009.

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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated December 4, 2009.

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

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties



Mary Taylor, CPA
Auditor of State

December 4, 2009

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009 AND JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

Noncompliance - Report Presentation

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

Ohio Admin. Code Section 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles.

The Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the 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, including assets, liabilities, and required disclosures to provide more complete information on its financial status.

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.

FINDING NUMBER 2009-002

Significant Deficiency - Accuracy of Financial Statement Compilation and Support

Presentation of financial statements is designed to provide an accurate accounting of the financial condition of the entity to the public. Part of the underlying support for financial statements is the trial balances. The trial balances are used as a tool to record the current year's cash activity for the respective line items. To accurately present the current year financial statements the reversing, cash transaction, adjusting entries, and prior year-end fund balance must be accurate and be recorded to the correct balance sheet or income/operating statement line item. Combined trial balances should be completed and supported by the individual fund trial balances. During the audit of the financial statements and the trial balances the following problems were noted:

- The trial balances did not agree to the fund financial statements presented in the compilation report due to the exclusion of the adjusting entries that were made to the compilation report but not entered on the trial balances. For 2009, an entry of \$5,131,485 was made to reclassify revenue generated from contract services as Contract Services instead of Tuition and Fees. Various additional adjustments were made to the trial balances in the amount of \$169,343 for 2008.

**FINDING NUMBER 2009-002
(Continued)**

- Adjustments to the Statement of Activities were necessary for the proper presentation of program revenue. Reclassifications were made from general revenues to program revenues in the amounts of \$155,885 and \$205,406 for 2009 and 2008, respectively.
- An adjustment in the amount of \$226,365 was made in the General Fund for 2009 to reclassify revenue generated from contract services – psychology as Contract Services instead of Tuition and Fees.
- Adjustments were made between cash and investments in the agency fund to properly reflect actual investments. Adjustments were made to the compilation trials to agree the agency funds with the reconciled bank balances in the amounts of \$19,210 for 2009.

The incorrect reporting of balances and revenues impacted the financial position of the Center and could result in erroneous assumptions by users. Lack of effective oversight of the financial reporting and internal control process by those charged with governance resulted in material misstatements in the basic financial statements that were not initially identified by internal controls. In addition, the determination and rectification of these discrepancies by audit staff resulted in additional audit time and costs.

During the process of accumulating data for preparation of the trial balances and the compilation of financial statements, the information should be reviewed for accuracy and completeness. In addition, management should review the compilation to verify the accuracy and completeness of the financial statements and note disclosures, the trial balances, and supporting work papers. Procedures should be implemented for monitoring the results of the compilation to provide that it properly reflects the financial condition of the Service Center. Procedures should include reviews by the governing body and comparisons of the current year information with prior year information to identify problem areas. Supporting documentation for the compilation should also be reviewed to determine if it has been properly completed.

Officials Response:

Variances have been noted and every effort will be made to correct the compilation and support procedures.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009 AND JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-001	Ohio Rev. Code Section 117.38 Ohio Admin. Code 117-2-03(B) GAAP filing required.	No	Repeated as Finding 2009-001
2007-002	Bank to Book Reconciliation	Yes	
2007-003	Accuracy of Financial Statement Compilation and Support	No	Repeated as Finding 2009-002



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 14, 2010**