



**CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

SINGLE AUDIT

JULY 1, 1997 THROUGH JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Champaign Educational Service Center
Champaign County
1512 South State Route 68
Urbana, Ohio 43078

To the Governing Board:

We have audited the accompanying general purpose financial statements of the Champaign Educational Service Center, Champaign County, (the Service Center) as of and for the years ended June 30, 1999 and 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Champaign County Educational Service Center, as of June 30, 1999 and 1998, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the accompanying general purpose financial statements for the fiscal year ended June 30, 1999, the Service Center changed its method of accounting for deferred compensation plans. As described in Note 3 to the accompanying general purpose financial statements for the fiscal year ended June 30, 1998, the Service Center changed its method of accounting for investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2000 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 grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Service Center, taken as a whole. The accompanying schedules of federal awards expenditures are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

JIM PETRO
Auditor of State

February 29, 2000

Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	ENTERPRISE	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
<u>Assets and Other Debits:</u>						
<u>Assets:</u>						
Equity in Pooled Cash and Cash Equivalents	\$481,415	\$316,426	\$5,734			\$803,575
Receivables:						
Accounts		825				825
Intergovernmental	201,518	1,285				202,803
Due from Other Funds	28,605					28,605
Prepaid Items	10,211	6,527				16,738
Fixed Assets				\$248,026		248,026
<u>Other Debits:</u>						
Amount to be Provided for the Retirement of General Long-Term Obligations					\$205,163	205,163
Total Assets and Other Debits	<u>\$721,749</u>	<u>\$325,063</u>	<u>\$5,734</u>	<u>\$248,026</u>	<u>\$205,163</u>	<u>\$1,505,735</u>
<u>Liabilities, Fund Equity and Other Credits:</u>						
<u>Liabilities:</u>						
Accounts Payable	\$10,367	\$30,111				\$40,478
Accrued Wages and Benefits	330,029	16,539				346,568
Due to Other Funds		28,605				28,605
Intergovernmental Payable	264,406	26,386	\$113		\$14,639	305,544
Compensated Absences Payable	2,852	634			190,524	194,010
Total Liabilities	<u>607,654</u>	<u>102,275</u>	<u>113</u>		<u>205,163</u>	<u>915,205</u>
<u>Fund Equity and Other Credits:</u>						
Investment in General Fixed Assets				248,026		248,026
Retained Earnings:						
Unreserved			5,621			5,621
Fund Balance:						
Reserved for Encumbrances	2,779	32,780				35,559
Unreserved	111,316	190,008				301,324
Total Fund Equity and Other Credits	<u>114,095</u>	<u>222,788</u>	<u>5,621</u>	<u>248,026</u>	<u>0</u>	<u>590,530</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$721,749</u>	<u>\$325,063</u>	<u>\$5,734</u>	<u>\$248,026</u>	<u>\$205,163</u>	<u>\$1,505,735</u>

See Accompanying Notes to the General Purpose Financial Statements

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999

	GENERAL	SPECIAL REVENUE	TOTALS (MEMORANDUM ONLY)
<u>Revenues:</u>			
Intergovernmental	\$1,760,328	\$767,323	\$2,527,651
Interest	28,640		28,640
Tuition and Fees	458,848	69,519	528,367
Customer Services	863,901	13,465	877,366
Miscellaneous	141,452		141,452
Total Revenues	3,253,169	850,307	4,103,476
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	36,074	159,208	195,282
Special	1,248,099	49,703	1,297,802
Adult/Continuing		22,588	22,588
Support Services:			
Pupils	607,824	78,851	686,675
Instructional Staff	873,231	105,430	978,661
Board of Education	14,366		14,366
Administration	201,605	149,152	350,757
Fiscal	37,499	24,772	62,271
Business	7,729		7,729
Operation and Maintenance of Plant	5,177	953	6,130
Pupil Transportation		155,574	155,574
Central	6,130	1,854	7,984
Extracurricular Activities	4,202		4,202
Intergovernmental		27,084	27,084
Total Expenditures	3,041,936	775,169	3,817,105
Excess of Revenues Over Expenditures	211,233	75,138	286,371
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In		2,261	2,261
Operating Transfers Out	(2,261)	0	(2,261)
Total Other Financing Sources (Uses)	(2,261)	2,261	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	208,972	77,399	286,371
Fund Balances (Deficit) at Beginning of Year	(94,877)	145,389	50,512
Fund Balances at End of Year	\$114,095	\$222,788	\$336,883

See Accompanying Notes to the General Purpose Financial Statements

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Revenues:</u>						
Intergovernmental	\$1,800,000	\$1,920,747	\$120,747	\$874,075	\$832,190	(\$41,885)
Interest	20,000	25,765	5,765			
Tuition and Fees	400,000	422,538	22,538	60,000	69,259	9,259
Customer Services	628,410	592,640	(35,770)	12,609	12,520	(89)
Miscellaneous	62,000	134,972	72,972			
Total Revenues	<u>2,910,410</u>	<u>3,096,662</u>	<u>186,252</u>	<u>946,684</u>	<u>913,969</u>	<u>(32,715)</u>
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	50,020	35,778	14,242	185,753	149,535	36,218
Special	1,230,333	1,175,132	55,201	69,737	64,665	5,072
Adult/Continuing				30,100	21,768	8,332
Support Services:						
Pupils	686,589	622,881	63,708	120,199	85,900	34,299
Instructional Staff	841,028	831,355	9,673	157,266	133,508	23,758
Board of Education	18,111	14,327	3,784			
Administration	235,597	201,658	33,939	262,374	153,029	109,345
Fiscal	53,800	37,916	15,884	44,773	25,300	19,473
Business	8,100	6,671	1,429			
Operation and Maintenance of Plant	12,650	5,738	6,912	1,336	953	383
Pupil Transportation	100		100	183,272	156,723	26,549
Central	6,868	5,823	1,045	2,106	2,042	64
Extracurricular Activities	4,634	4,202	432			
Total Expenditures	<u>3,147,830</u>	<u>2,941,481</u>	<u>206,349</u>	<u>1,056,916</u>	<u>793,423</u>	<u>263,493</u>
Excess of Revenues Over (Under) Expenditures	<u>(237,420)</u>	<u>155,181</u>	<u>392,601</u>	<u>(110,232)</u>	<u>120,546</u>	<u>230,778</u>
<u>Other Financing Sources (Uses):</u>						
Refund of Prior Year Expenditure		4,601	4,601			
Operating Transfers In					2,261	2,261
Operating Transfers Out	(2,261)	(2,261)	0			
Total Other Financing Sources (Uses)	<u>(2,261)</u>	<u>2,340</u>	<u>4,601</u>	<u></u>	<u>2,261</u>	<u>2,261</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(239,681)</u>	<u>157,521</u>	<u>397,202</u>	<u>(110,232)</u>	<u>122,807</u>	<u>233,039</u>
Fund Balances at Beginning of Year	309,434	309,434	0	129,352	129,352	0
Prior Year Encumbrances Appropriated	6,815	6,815	0	22,082	22,082	0
Fund Balances at End of Year	<u>\$76,568</u>	<u>\$473,770</u>	<u>\$397,202</u>	<u>\$41,202</u>	<u>\$274,241</u>	<u>\$233,039</u>

See Accompanying Notes to the General Purpose Financial Statements

Champaign County Educational Service Center
Statement of Revenues,
Expenses and Changes in Retained Earnings
Enterprise Fund
For the Fiscal Year Ended June 30, 1999

	Enterprise
<u>Operating Revenues:</u>	
Charges for Services	\$35,987
<u>Operating Expenses:</u>	
Salaries	26,086
Fringe Benefits	567
Purchased Services	34
Materials and Supplies	1,465
Total Operating Expenses	28,152
Net Income	7,835
Retained Earnings (Deficit) at Beginning of Year	(2,214)
Retained Earnings at End of Year	\$5,621

See Accompanying Notes to the General Purpose Financial Statements

Statement of Revenues, Expenses and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual
Enterprise Fund
For the Fiscal Year Ended June 30, 1999

	Enterprise Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Charges for Services	\$37,000	\$35,987	(\$1,013)
<u>Expenses:</u>			
Salaries	30,500	30,231	269
Fringe Benefits	4,940	4,189	751
Purchased Services	2,000		2,000
Materials and Supplies	4,210	1,465	2,745
Other	680		680
Total Expenses	42,330	35,885	6,445
Excess of Revenue Over (Under) Expenses	(5,330)	102	5,432
Fund Balance at Beginning of Year	3,797	3,797	0
Prior Year Encumbrances Appropriated	1,835	1,835	0
Fund Balance at End of Year	\$302	\$5,734	\$5,432

See Accompanying Notes to the General Purpose Financial Statements

Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 1999

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$35,987
Cash Payments to Employees for Services	(30,231)
Cash Payments for Employee Benefits	(4,189)
Cash Payments to Suppliers for Goods and Services	(1,465)
Cash Provided by Operating Activities	102
Net Increase in Cash and Cash Equivalents	102
Cash and Cash Equivalents at Beginning of Year	5,632
Cash and Cash Equivalents at End of Year	\$5,734
 <u>Reconciliation of Operating Income to Net</u>	
<u>Cash Provided by Operating Activities:</u>	
Operating Income	\$7,835
 <u>Adjustments to Reconcile Operating Income to</u>	
<u>Net Cash Provided by Operating Activities:</u>	
<u>Changes in Assets and Liabilities:</u>	
Decrease in Prepaid Items	34
Decrease in Accrued Wages and Benefits	(4,145)
Decrease in Intergovernmental Payable	(3,622)
Total Adjustments	(7,733)
Net Cash Provided by Operating Activities	\$102

See Accompanying Notes to the General Purpose Financial Statements

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Champaign County Educational Service Center (the "Educational Service Center") is located in Urbana, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Graham, West Liberty-Salem, and Triad Local School Districts; Mechanicsburg Exempted Village School District; and Urbana City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Champaign County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 1 administrator, 58 classified employees, and 55 certified personnel who provide services to the local, exempted village, and city school district.

A. Primary Government

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

B. Component Units

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

The Educational Service Center is associated with two jointly governed organizations and an insurance pool. These organizations include the Western Ohio Computer Organization, West Central Ohio Special Education Regional Resource Center, and the Ohio School Board Association Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 16 and 17 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Champaign County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its enterprise fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

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

Governmental Fund Types:

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Proprietary Fund Type:

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

Enterprise Fund - The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the enterprise fund.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Enterprise funds' operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, customer services, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the enterprise fund. Revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred. There were no unbilled service charges receivable at year end.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Education Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Education Service Center the amount from part (B) that is to be apportioned to their district.

Estimated Resources:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year if projected increases or decreases in revenue are identified the Treasurer or additional grant programs are approved by the Board.

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any funds appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

Lapsing of Appropriations:

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 1999, investments were limited to STAROhio, STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$28,640, which includes \$18,310 assigned from other Educational Service Center funds.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. The enterprise fund has no fixed assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Reimbursable Grants

Special Revenue Funds

School Bus Driver Training Program

Non-Reimbursable Grants

Special Revenue Funds

Local Professional Development Block Grant

Training Ohio's parents

Career Enhancement

Peer Assistance and Review

Teenage Pregnancy

Wellness

Education Management Information Systems

Public School Preschool

Entry Year

Reggio Jennings Grant

School to Work Program

Adult Basic Education

Eisenhower

Title I

Early Childhood Education

EHA Preschool Grant for the Handicapped

School Improvement Facilitators

Grants and entitlements for governmental funds amounted to approximately sixty-two percent of the Educational Service Center's governmental operating revenue during the 1999 fiscal year.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after fifteen years of current service with either the State Teachers Retirement System or School Employees Retirement System.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

J. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through to or spent on behalf of the school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For the fiscal year 1999, these funds included the Teenage Pregnancy, Entry Year Programs, Eisenhower, and Professional Development special revenue funds.

K. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after year-end are considered not to have used current available financial resources. In general, payments made more than sixty days after year-end are considered not to have been paid using current available financial resources.

Long-term obligations financed by the enterprise fund are reported as liabilities in the fund.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

The Educational Service Center has also implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through Ohio Public Employees Deferred Compensation. On September 1, 1998, Ohio Public Employees Deferred Compensation created a trust for the assets of the plan for which the Educational Service Center has no fiduciary responsibility. Therefore, the balance of the Ohio Public Employees Deferred Compensation Plan of \$228,909 was shown as a reduction in the deferred compensation agency fund.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Title VI B special revenue fund had a fund equity deficit of \$209 at June 30, 1999. The deficit is the result of the application of generally accepted accounting principles. The general fund is liable for the deficit in this fund, but provides operating transfers when cash is required, not when accruals occur.

B. Compliance

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 1999.

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Special Revenue			
Peer Assistance Fund			
Regular Instruction			
Salaries	\$8,000	\$12,806	\$4,806
Public School Preschool Fund			
Support Services - Pupils			
Capital Outlay - New	5,894	6,662	768

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

The following Funds had appropriations plus carryover encumbrances in excess of estimated resources for the fiscal year ended June 30, 1999.

Fund/Function	Estimated Resources	Appropriations Plus Carryover Encumbrances	Excess
Special Revenue Title Vi B Fund	\$53,749	\$56,010	\$2,261

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses All Governmental Fund Types		
	General Fund	Special Revenue Funds
GAAP Basis	\$208,972	\$77,399
Adjustments:		
Revenue Accruals	(149,031)	63,662
Expenditure Accruals	104,838	26,734
Undeposited Cash on Hand	(2,875)	0
Prepaid Items	387	(2,803)
Encumbrances at Fiscal Year End (Budget Basis)	(4,770)	(42,185)
Budget Basis	<u>\$157,521</u>	<u>\$122,807</u>

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING(Continued)

Net Income/Excess of Revenues Over Expenses - Enterprise Fund	
GAAP Basis	\$7,835
Adjustments:	
Expense Accruals	(7,767)
Prepaid Items	34
Budget Basis	<u>\$102</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Cash on Hand At fiscal year end, the Educational Service Center had \$25 in undeposited cash on hand which is included on the Combined Balance Sheet of the Educational Service Center as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits At fiscal year end the carrying amount of the Educational Service Center's deposits was \$439,637 and the bank balance was \$672,685. Of the bank balance \$134,281 was covered by federal depository insurance; and the remaining bank balance was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Investments The Educational Service Center's investments are to be categorized to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. At year end, the Educational Service Center's investment in STAROhio had a fair value of \$363,913. STAROhio, an investment pool operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) and investments for purposes of the note above is based on criteria set forth in GASB Statement No. 3. A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB 3 is as follows:

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$803,575	\$0
Cash on Hand	(25)	
Investments:		
STAR Ohio	(363,913)	363,913
GASB Statement 3	\$439,637	\$363,913

NOTE 7- STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all the school districts served by the Educational Service Center by \$34. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of each of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 8 - RECEIVABLES

Receivables at June 30, 1999 consisted of accounts and intergovernmental revenues. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Customer Services	\$146,784
Tuition	36,310
Reimbursement of Expenses	18,424
Total General Fund	201,518
Special Revenue Funds:	
Customer Services	1,260
Miscellaneous	25
Total Special Revenue Funds	1,285
Total Intergovernmental Receivables	\$202,803

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 9 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 1999 follows:

<u>Asset Category</u>	<u>Balance 6/30/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/99</u>
Furniture and Equipment	\$152,177	\$39,905	\$0	\$192,082
Vehicles	55,944	0	0	55,944
Totals	<u>\$208,121</u>	<u>\$39,905</u>	<u>\$0</u>	<u>\$248,026</u>

NOTE 10 - RISK MANAGEMENT

The Educational 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 1999, the Educational Service Center contracted with Nationwide Insurance Company for general liability and fleet insurance. Property is protected by Indiana Insurance. Coverages provided by Nationwide Insurance and Indiana Insurance are as follows:

Building and Contents-replacement cost (\$100 deductible)	\$1,000,000
Automobile Liability (\$200 deductible)	500,000
Uninsured Motorists (\$200 deductible)	500,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reductions in coverages from the prior year.

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool (Note 16). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Program.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The school districts apply for participation each year. The firm of Gates and McDonald provides administrative, cost control, and actuarial services to the Program. Each year, the Educational Service Center pays an enrollment fee to the Program to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement benefits and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$49,912, \$50,490, and \$48,529, respectively; 93.1 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$4,214 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Educational Service Center participates in 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 benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contribution for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$115,508, \$182,517, and \$198,824, respectively; 83.4 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$35,874 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

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, 1990, two of the board of education members has elected Social Security. The board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$154,010 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll; an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$55,476 during the 1999 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of annual health care expenses. Expense for health care at June 30, 1998, was \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days for all employees.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 13 - EMPLOYEE BENEFITS (Continued)

B. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Coresource.

NOTE 14 - LONG TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 1999 were as follows:

	Balance 06/30/98	Additions	Deductions	Balance 06/30/99
Compensated Absences	\$164,519	\$26,005	\$0	\$190,524
Intergovernmental Payable	13,450	14,639	13,450	14,639
Total Long-Term Obligations	<u>\$177,969</u>	<u>\$40,644</u>	<u>\$13,450</u>	<u>\$205,163</u>

Compensated absences and the intergovernmental payable will be paid from the fund from which the employees' salaries are paid. The change in compensated absences is presented net because it is not practical to determine the actual increase and decrease.

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Due from Other Funds	Due to Other Funds
General Fund	\$28,605	\$0
Special Revenue Fund:		
Bus Driver Training Program	0	200
Peer Assistance	0	9,500
Public School Pre-School	0	18,905
Total All Funds	<u>\$28,605</u>	<u>\$28,605</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATION

Western Ohio Computer Organization - The Educational Service Center is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Hardin, Auglaize, Shelby, Logan, Miami and Champaign Counties. 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 school districts. The governing board of WOCO consist of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 16 - JOINTLY GOVERNED ORGANIZATION (Continued)

West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members which include the superintendent of each of the participating school districts, a non-public school, and the Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

NOTE 17 - INSURANCE PURCHASING POOL

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

NOTE 18 - SCHOOL FUNDING

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$1,920,747 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the thorough and efficient clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of this date, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 19 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with 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 Educational Service Center at June 30, 1999.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

NOTE 20 - SUBSEQUENT EVENT

The Champaign County Educational Service Center discontinued its operations on July 1, 1999. The Champaign County and Madison County Educational Service Centers combined their operations on July 1, 1999, to comply with the requirements of Am. Sub. House Bill No. 117 Section 45.32. The new organization operates as the Madison-Champaign County Educational Service Center.

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture				
(Passed through Ohio Department of Education)				
National School Lunch Program	03-PU-98	10.555	\$595	\$595
	03-PU-99		949	949
	04-PU-98		5,016	5,016
	04-PU-99		<u>8,403</u>	<u>8,403</u>
Total National School Lunch Program			<u>14,963</u>	<u>14,963</u>
Total U.S. Department of Agriculture			14,963	14,963
U.S. Department of Education				
(Passed through Ohio Department of Education)				
Title I - Education Consolidation Improvement Act	C1-ST-98	84.010	60,658	69,105
	C1-ST-99		<u>141,300</u>	<u>118,782</u>
Total Title I			201,958	187,887
Preschool Grants	PG-S1-98	84.173	4,234	5,077
	PG-S1-99		<u>48,672</u>	<u>48,672</u>
Total Preschool Grants			52,906	53,749
Goals 2000	G2-SP-99	84.276	171,000	62,391
Math Science Subsidy	MS-S1-97	84.281	0	3,783
	MS-S1-98		0	15,122
	MS-S1-99		<u>19,230</u>	<u>3,222</u>
Total Math Science Subsidy			19,230	22,127
(Passed through Ohio High Point JVS)				
Adult Basic Education	ABLE 97-98	84.002	0	7,985
	ABLE 98-99		<u>15,000</u>	<u>13,783</u>
Total Adult Basic Education			15,000	21,768
Total U.S. Department of Education			<u>460,094</u>	<u>347,922</u>
Total Federal Programs			<u>\$475,057</u>	<u>\$362,885</u>

See accompanying notes to the Federal Schedule of Awards Expenditures

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedules of federal awards expenditures are a summary of the activity of the Service Center's federal awards programs. The schedules have been prepared on the cash basis of accounting.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM AND ADULT BASIC EDUCATION

Federal funds received from the National School Lunch Program were commingled with state subsidy and local revenue from the sale of meals. Federal funds received from the Ohio High Point JVS for Adult Basic Education were commingled with local funds. It was assumed that federal dollars were expended first.

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Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1998

	<u>GOVERNMENTAL FUND TYPES</u>		<u>PROPRIETARY FUND TYPE</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ENTERPRISE</u>
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$316,249	\$151,434	\$5,632
Cash and Cash Equivalents in Segregated Accounts			
Receivables:			
Accounts	2,399	600	
Intergovernmental	65,270	65,172	
Prepaid Items	10,598	3,724	34
Funds on Deposit with Deferred Compensation Board			
Fixed Assets			
<u>Other Debits:</u>			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	<u>\$394,516</u>	<u>\$220,930</u>	<u>\$5,666</u>
 <u>Liabilities, Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$15,363	\$14,852	
Accrued Wages and Benefits	222,048	18,800	\$4,145
Intergovernmental Payable	229,162	37,370	3,735
Compensated Absences Payable	22,820	4,519	
Payroll Withholdings			
Deferred Compensation Payable			
Total Liabilities	<u>489,393</u>	<u>75,541</u>	<u>7,880</u>
 <u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved (Deficit)			(2,214)
Fund Balance:			
Reserved for Encumbrances	6,117	19,445	
Unreserved (Deficit)	(100,994)	125,944	
Total Fund Equity (Deficit) and Other Credits	<u>(94,877)</u>	<u>145,389</u>	<u>(2,214)</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$394,516</u>	<u>\$220,930</u>	<u>\$5,666</u>

See Accompanying Notes to the General Purpose Financial Statements

FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
AGENCY			
			\$473,315
\$202			202
			2,999
			130,442
			14,356
228,909			228,909
	\$208,121		208,121
		\$177,969	177,969
<u>\$229,111</u>	<u>\$208,121</u>	<u>\$177,969</u>	<u>\$1,236,313</u>
	\$0	\$0	\$30,215
	0	0	244,993
	0	13,450	283,717
	0	164,519	191,858
\$202	0	0	202
228,909	0	0	228,909
<u>229,111</u>	<u>0</u>	<u>177,969</u>	<u>979,894</u>
	208,121		208,121
			(2,214)
			25,562
			24,950
	208,121		256,419
<u>\$229,111</u>	<u>\$208,121</u>	<u>\$177,969</u>	<u>\$1,236,313</u>

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1998

	GENERAL	SPECIAL REVENUE	TOTALS (MEMORANDUM ONLY)
<u>Revenues:</u>			
Intergovernmental	\$1,751,011	\$625,530	\$2,376,541
Interest	18,212		18,212
Tuition and Fees	210,305	61,142	271,447
Customer Services	619,608	14,350	633,958
Miscellaneous	129,565		129,565
Total Revenues	2,728,701	701,022	3,429,723
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	32,101	3,794	35,895
Special	949,347	94,081	1,043,428
Adult/Continuing		24,659	24,659
Support Services:			
Pupils	610,129	95,362	705,491
Instructional Staff	775,254	138,341	913,595
Board of Education	13,798		13,798
Administration	262,362	107,088	369,450
Fiscal	35,145	20,364	55,509
Business	7,107		7,107
Operation and Maintenance of Plant	15,767	880	16,647
Pupil Transportation		157,633	157,633
Central	4,826	787	5,613
Extracurricular Activities	3,077		3,077
Intergovernmental		111,948	111,948
Total Expenditures	2,708,913	754,937	3,463,850
Excess of Revenues Over (Under) Expenditures	19,788	(53,915)	(34,127)
Fund Balances (Deficit) at Beginning of Year	(114,665)	199,304	84,639
Fund Balances (Deficit) at End of Year	(\$94,877)	\$145,389	\$50,512

See Accompanying Notes to the General Purpose Financial Statements

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1998

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Revenues:</u>						
Intergovernmental	\$1,745,292	\$1,749,867	\$4,575	\$631,015	\$613,893	(\$17,122)
Interest	22,000	18,212	(3,788)			
Tuition and Fees	225,000	266,181	41,181	51,200	60,612	9,412
Customer Services	491,280	652,544	161,264	16,000	14,210	(1,790)
Miscellaneous	54,500	110,768	56,268			
Total Revenues	<u>2,538,072</u>	<u>2,797,572</u>	<u>259,500</u>	<u>698,215</u>	<u>688,715</u>	<u>(9,500)</u>
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	31,470	32,183	(713)	9,610	7,704	1,906
Special	907,746	941,689	(33,943)	105,873	83,402	22,471
Adult/Continuing				25,000	22,015	2,985
Support Services:						
Pupils	572,152	586,327	(14,175)	122,051	107,020	15,031
Instructional Staff	702,786	773,110	(70,324)	268,881	251,710	17,171
Board of Education	17,849	13,966	3,883			
Administration	257,840	265,746	(7,906)	157,654	118,910	38,744
Fiscal	46,500	35,596	10,904	25,359	15,753	9,606
Business	7,872	7,136	736			
Operation and Maintenance of Plant	14,500	15,168	(668)	880	880	0
Pupil Transportation	100		100	169,027	159,728	9,299
Central	6,450	3,922	2,528	1,200	1,028	172
Extracurricular Activities	3,547	3,077	470			
Total Expenditures	<u>2,568,812</u>	<u>2,677,920</u>	<u>(109,108)</u>	<u>885,535</u>	<u>768,150</u>	<u>117,385</u>
Excess of Revenues Over (Under) Expenditures	<u>(30,740)</u>	<u>119,652</u>	<u>150,392</u>	<u>(187,320)</u>	<u>(79,435)</u>	<u>107,885</u>
<u>Other Financing Sources (Uses):</u>						
Refund of Prior Year Expenditure		18,042	18,042			
Operating Transfers In	5,000		(5,000)			
Advances In	5,000		(5,000)			
Advances Out	(500)		500			
Refund of Prior Year Receipts			0			
Total Other Financing Sources (Uses)	<u>9,500</u>	<u>18,042</u>	<u>8,542</u>			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(21,240)</u>	<u>137,694</u>	<u>158,934</u>	<u>(187,320)</u>	<u>(79,435)</u>	<u>107,885</u>
Fund Balances at Beginning of Year	170,274	170,274	0	150,512	150,512	0
Prior Year Encumbrances Appropriated	1,466	1,466	0	58,275	58,275	0
Fund Balances at End of Year	<u>\$150,500</u>	<u>\$309,434</u>	<u>\$158,934</u>	<u>\$21,467</u>	<u>\$129,352</u>	<u>\$107,885</u>

See Accompanying Notes to the General Purpose Financial Statements

Statement of Revenues,
Expenses and Changes in Retained Earnings
Enterprise Fund
For the Fiscal Year Ended June 30, 1998

	Enterprise
<u>Operating Revenues:</u>	
Charges for Services	\$33,569
<u>Operating Expenses:</u>	
Salaries	30,796
Fringe Benefits	9,019
Purchased Services	2,731
Materials and Supplies	993
Other	200
Total Operating Expenses	43,739
Net Operating Loss	(10,170)
Retained Earnings at Beginning of Year	7,956
Retained Earnings (Deficit) at End of Year	(\$2,214)

See Accompanying Notes to the General Purpose Financial Statements

Statement of Revenues, Expenses and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual
Enterprise Fund
For the Fiscal Year Ended June 30, 1998

	Enterprise		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Charges for Services	\$36,000	\$33,569	(\$2,431)
<u>Expenses:</u>			
Salaries	31,000	30,601	399
Fringe Benefits	9,920	7,770	2,150
Purchased Services	2,966	2,748	218
Materials and Supplies	5,728	2,620	3,108
Other	1,033	680	353
Total Expenses	50,647	44,419	6,228
Excess of Revenue Under Expenses	(14,647)	(10,850)	3,797
Fund Balance at Beginning of Year	13,582	13,582	0
Prior Year Encumbrances Appropriated	1,065	1,065	0
Fund Balance at End of Year	\$0	\$3,797	\$3,797

See Accompanying Notes to the General Purpose Financial Statements

Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 1998

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$33,569
Cash Payments to Employees for Services	(30,601)
Cash Payments for Employee Benefits	(7,770)
Cash Payments to Suppliers for Goods and Services	<u>(4,213)</u>
Cash Used for Operating Activities	<u>(9,015)</u>
 Net Decrease in Cash and Cash Equivalents	 (9,015)
 Cash and Cash Equivalents at Beginning of Year	 <u>14,647</u>
Cash and Cash Equivalents at End of Year	<u><u>\$5,632</u></u>
<u>Reconciliation of Operating Loss to Net</u>	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	<u>(\$10,170)</u>
<u>Adjustments to Reconcile Operating</u>	
<u>Loss to Net Cash Used for Operating Activities:</u>	
<u>Changes in Assets and Liabilities:</u>	
Increase in Prepaid Items	(17)
Increase in Accounts Payable	(272)
Increase in Accrued Wages and Benefits	(5)
Decrease in Intergovernmental Payable	<u>1,449</u>
Total Adjustments	<u>1,155</u>
Net Cash Used for Operating Activities	<u><u>(\$9,015)</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Champaign County Educational Service Center (the "Educational Service Center") is located in Urbana, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Graham, West Liberty-Salem, and Triad Local School Districts; Mechanicsburg Exempted Village School District; and Urbana City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Champaign County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 1 administrator, 40 classified employees, and 55 certified personnel who provide services to the local, exempted village, and city school district.

A. Primary Government

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

B. Component Units

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

The Educational Service Center is associated with two jointly governed organizations and an insurance pool. These organizations include the Western Ohio Computer Organization, West Central Ohio Special Education Regional Resource Center, and the Ohio School Board Association Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Champaign County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its enterprise fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

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

Governmental Fund Types:

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Proprietary Fund Type:

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

Enterprise Fund - The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

Account Groups: (Continued)

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the enterprise fund.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Enterprise funds' operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the enterprise fund. Revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred. There were no unbilled service charges receivable at year end.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Education Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Education Service Center the amount from part (B) that is to be apportioned to their district.

Estimated Resources:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year if projected increases or decreases in revenue are identified the Treasurer or additional grant programs are approved by the Board.

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any funds appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

Lapsing of Appropriations:

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

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 1998, investments were limited to STAROhio and deferred compensation. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1998.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to \$18,212, which includes \$10,523 assigned from other Educational Service Center funds.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1998, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. The enterprise fund has no fixed assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated.

G. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants and entitlements for enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues (Continued)

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Reimbursable Grants

Special Revenue Funds

School Bus Driver Training Program

Non-Reimbursable Grants

Special Revenue Funds

Local Professional Development Block Grant

Early Childhood Education

Wellness

Education Management Information Systems

Public School Preschool

Entry Year

Miscellaneous State

Reggio Jennings Grant

School to Work Program

Adult Basic Education

Eisenhower

Title I

EHA Preschool Grant for the Handicapped

Grants and entitlements for governmental funds amounted to approximately sixty-nine percent of the Educational Service Center's governmental operating revenue during the 1998 fiscal year.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after fifteen years of current service with either the State Teachers Retirement System or School Employees Retirement System.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through to or spent on behalf of the school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For the fiscal year 1998, these funds included the Eisenhower and Title I special revenue funds.

J. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after year-end are considered not to have used current available financial resources. In general, payments made more than sixty days after year-end are considered not to have been paid using current available financial resources.

Long-term obligations financed by the enterprise fund are reported as liabilities in the fund.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

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

M. Used of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 1998, the Educational Service Center has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools." The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were required to be reported at cost are now reported at fair value. The implementation of GASB 31 did not have any effect on fund balance as it was previously reported as of June 30, 1997.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The General Fund and the Title VI-B special revenue fund had fund equity deficits of \$94,877 and \$3,365, respectively, at June 30, 1998. The Early Childhood Enterprise fund had a negative retained earnings of \$2,214. The deficit is the result of the application of generally accepted accounting principles.

B. Compliance

The following funds had appropriations in excess of estimated receipts plus available balances for the fiscal year ended June 30, 1998:

<u>Special Revenue Funds:</u>	<u>Excess</u>
Miscellaneous State Grants	\$5,200

The following accounts had expenditures plus encumbrances in excess of appropriations for the fiscal year ended June 30, 1998.

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
Regular Instruction			
Salaries	\$18,000	\$19,854	\$1,854
Materials and Supplies	3,300	3,309	9
Special Instruction			
Salaries	648,360	676,248	27,888
Fringe Benefits	162,945	172,364	9,419
Materials and Supplies	47,415	47,994	579
Pupils			
Salaries	432,105	451,115	19,010
Purchased Services	41,707	44,378	2,671
Instructional Staff			
Salaries	585,500	616,743	31,243
Fringe Benefits	90,540	129,119	38,579
Purchased Services	20,100	22,748	2,648
Administration			
Salaries	140,500	144,772	4,272
Fringe Benefits	40,530	41,763	1,233
Purchased Services	26,300	31,493	5,193
Other	3,010	3,141	131
Capital Outlay - New	34,000	34,757	757
Fiscal			
Fringe Benefits	8,000	8,014	14

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Compliance (Continued)

Fund/Function	Appropriation	Expenditures Plus Encumbrances	Excess
Purchased Services	8,500	9,147	647
Capital Outlay - Replacement	6,000	6,021	21
Special Revenue Funds:			
Bus Driver Training			
Pupil Transportation			
Fringe Benefits	19,000	22,242	3,242
Entry Year			
Instructional Staff			
Materials and Supplies	669	1,182	513
Eisenhower			
Pupils			
Materials and Supplies	7,577	10,377	2,800

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types		
	<u>General Fund</u>	<u>Special Revenue Funds</u>
GAAP Basis	\$19,788	(\$53,915)
Adjustments:		
Revenue Accruals	86,913	(12,307)
Expenditure Accruals	46,547	12,351
Prepaid Items	(8,739)	(3,482)
Encumbrances at Fiscal Year End (Budget Basis)	<u>(6,815)</u>	<u>(22,082)</u>
Budget Basis	<u><u>\$137,694</u></u>	<u><u>(\$79,435)</u></u>

Net Loss/Excess of Revenues Under
Expenses - Enterprise Fund

GAAP Basis	(\$10,170)
Adjustments:	
Expense Accruals	1,172
Prepaid Items	(17)
Encumbrances at Fiscal Year End (Budget Basis)	<u>(1,835)</u>
Budget Basis	<u><u>(\$10,850)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Protection of the Educational 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Cash on Hand At fiscal year end, the Educational Service Center had \$25 in undeposited cash on hand which is included on the Combined Balance Sheet of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Deposits At year end the carrying amount of the Educational Service Center's deposits was \$170,707 and the bank balance was \$306,576. Of the bank balance \$127,629 was covered by federal depository insurance; and the remaining bank balance was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

Investments The Educational Service Center's investments to be categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. STAR Ohio and Deferred Compensation are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAROhio	302,785
Deferred Compensation	228,909
Total	\$531,694

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) and investments for purposes of the note above is based on criteria set forth in GASB Statement No. 3. A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$473,517	\$228,909
Cash on Hand	(25)	
Investments:		
STAR Ohio	(302,785)	302,785
GASB Statement 3	\$170,707	\$531,694

NOTE 7- STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all the school districts served by the Educational Service Center by \$32. This amount is provided from State resources. If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of each of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 7 - STATE FUNDING (Continued)

The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 8 - RECEIVABLES

Receivables at June 30, 1998 consisted of accounts and intergovernmental revenues. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Customer Services	\$61,004
Reimbursement of Expenses	4,266
Total General Fund	65,270
Special Revenue Funds:	
Customer Services	280
Title I	60,658
Title VI-B	4,234
Total Special Revenue Funds	65,172
Total Intergovernmental Receivables	\$130,442

NOTE 9 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 1998 follows:

	Balance 6/30/97	Additions	Deletions	Balance 6/30/98
Furniture and Equipment	\$110,277	\$41,900	\$0	\$152,177
Vehicles	55,944	0	0	55,944
Totals	\$166,221	\$41,900	\$0	\$208,121

NOTE 10 - RISK MANAGEMENT

The Educational 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 1998, the Educational Service Center contracted with Nationwide Insurance Company for general liability and fleet insurance. Property is protected by Indiana Insurance. Coverages provided by Nationwide Insurance and Indiana Insurance are as follows:

Building and Contents-replacement cost (\$100 deductible)	\$1,000,000
Automobile Liability (\$200 deductible)	500,000
Uninsured Motorists (\$200 deductible)	500,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reductions in coverages from the prior year.

For fiscal year 1998, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool (Note 16). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Program.

A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The school districts apply for participation each year. The firm of Gates and McDonald provides administrative, cost control, and actuarial services to the Program. Each year, the School District pays an enrollment fee to the Program to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement benefits and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998, 9.79 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$50,490, \$48,529, and \$47,092, respectively; 100 percent has been contributed for the fiscal years 1998, 1997 and 1996.

B. State Teachers Retirement System

The Educational Service Center participates in 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 benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The Educational Service Center's required contributions for pension obligations to STRS for the years ended June 30, 1998, 1997, and 1996 were \$182,517, \$198,824, and \$176,217, respectively; none of the contribution has been contributed for fiscal year 1998 and 100 percent has been contributed for the fiscal years 1997 and 1996. \$182,517 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds.

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, 1998, two of the board of education members has elected Social Security. The board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the Educational Service Center, this amount equaled \$60,839 during the 1998 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$1,860 million at June 30, 1997. For the year ended June 30, 1997, net health care costs paid by STRS were \$192,077,000 and STRS had 88,718 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll; an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expense for health care at June 30, 1997, was \$97,429,197 and the target level was \$121.8 million. At June 30, 1997, SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$35,162 during the 1998 fiscal year.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days for all employees.

B. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Coresource.

NOTE 14 - LONG TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 1998 were as follows:

	Balance 06/30/97	Additions	Deductions	Balance 06/30/98
Compensated Absences	\$173,624	\$0	\$9,105	\$164,519
Intergovernmental Payable	18,312	13,450	18,312	13,450
Total Long-Term Obligations	<u>\$191,936</u>	<u>\$13,450</u>	<u>\$27,417</u>	<u>\$177,969</u>

Compensated absences and the intergovernmental payable will be paid from the fund from which the employees' salaries are paid. The change in compensated absences is presented net because it is not practical to determine the actual increase and decrease.

NOTE 15 - JOINTLY GOVERNED ORGANIZATION

Western Ohio Computer Organization - The Educational Service Center is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Hardin, Auglaize, Shelby, Logan, Miami and Champaign Counties. 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 school districts. The governing board of WOCO consist of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

**NOTES TO GENERAL PURPOSE THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
(Continued)**

NOTE 15 - JOINTLY GOVERNED ORGANIZATION (Continued)

The SERRC is governed by a board of 52 members which include the superintendent of each of the participating school districts, a non-public school, and the Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

NOTE 16 - INSURANCE PURCHASING POOL

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

NOTE 17 - SCHOOL FUNDING

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1998, the Educational Service Center received \$1,749,867 of school foundation support for its General Fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws to determine whether they are constitutional under the "thorough and efficient" clause of the Ohio Constitution. A decision is expected from the Perry County Court sometime in early calendar year 1999; either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE 18 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with 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 Educational Service Center at June 30, 1998.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1998**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture				
(Passed through Ohio Department of Education)				
National School Lunch Program	03-PU-98	10.555	\$914	\$914
	04-PU-98		<u>7,640</u>	<u>7,640</u>
Total National School Lunch Program			<u>8,554</u>	<u>8,554</u>
Total U.S. Department of Agriculture			8,554	8,554
U.S. Department of Education				
(Passed through Ohio Department of Education)				
Title I - Education Consolidation Improvement Act	C1-AS-97	84.010	43,113	109,216
	C1-ST-98		<u>111,711</u>	<u>103,264</u>
Total Title I			154,824	212,480
Preschool Grants	PG-S1-97	84.173	7,605	7,626
	PG-S1-98		<u>44,672</u>	<u>43,829</u>
Total Preschool Grants			52,277	51,455
Math Science Subsidy	MS-S1-96	84.281	0	2,173
	MS-S1-97		0	11,568
	MS-S1-98		<u>18,626</u>	<u>2,219</u>
Total Math Science Subsidy			18,626	15,960
(Passed through Ohio High Point JVS)				
Adult Basic Education	ABLE 96-97	84.002	15,000	15,000
	ABLE 97-98		<u>15,000</u>	<u>7,015</u>
Total Adult Basic Education			<u>30,000</u>	<u>22,015</u>
Total U.S. Department of Education			<u>255,727</u>	<u>301,910</u>
Total Federal Programs			<u><u>\$264,281</u></u>	<u><u>\$310,464</u></u>

See accompanying notes to Federal Schedule of Awards Expenditures

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1998**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedules of federal awards expenditures are a summary of the activity of the Service Center's federal awards programs. The schedules have been prepared on the cash basis of accounting.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM AND ADULT BASIC EDUCATION

Federal funds received from the National School Lunch Program were commingled with state subsidy and local revenue from the sale of meals. Federal funds received from the Ohio High Point JVS for Adult Basic Education were commingled with local funds. It was assumed that federal dollars were expended first.

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

Champaign Educational Service Center
Champaign County
1512 South State Route 68
Urbana, Ohio 43078

To the Governing Board:

We have audited the financial statements of the Champaign Educational Service Center, Champaign County, (Service Center), as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated February 29, 2000 in which the Service Center changed its method of accounting for deferred compensation plans and investments. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1999-10311-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Service Center in a separate letter dated February 29, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated February 29, 2000.

This report is intended for the information and use of the management, governing board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

February 29, 2000



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Champaign Educational Service Center
Champaign County
1512 South State Route 68
Urbana, Ohio 43078

To the Governing Board:

Compliance

We have audited the compliance of the Champaign Educational Service Center, Champaign County (Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the years ended June 30, 1999 and 1998. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended June 30, 1999 and 1998.

Internal Control Over Compliance

The management of Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 1999-10311-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is not a material weakness. We also noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated February 29, 2000.

This report is intended for the information and use of the management, governing board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

February 29, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999 AND 1998

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I (CFDA 84.010)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999 AND 1998
(Continued)

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

Finding Number	1999-10311-001
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Ohio Rev. Code Section 3317.11 states that the educational service center governing board shall prepare a budget of operating expenses for the ensuing year for the service center on forms prepared and furnished by the state board of education and shall certify the budget to the state board of education, together with such information as the board may require. Such budget shall consists of two parts. Part (A) shall include the cost of the salaries, employers retirement contributions and travel expenses of supervisory teachers approved by the state board of education. Part (B) of the budget is in excess of that approved by the state board of education, the excess cost shall be apportioned by the state board of education among the local school districts.

During the period of July 1, 1997 through June 30, 1999, the Service Center did not prepare and certify its budget to the State Board of Education. The Treasurer called the State Board of Education and provided the total appropriation figure and was to follow-up by sending the prepared budget. Not certifying the budget to the appropriate agency hinders the monitoring of the budgetary process and could allow the Service Center to spend funds in excess of the amounts available.

The Service Center should follow the guidelines set forth in Ohio Rev. Code Section 3317.11 and certify the budget to the State Board of Education.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	1999-10311-002
CFDA Title and Number	National School Lunch Program (CFDA #10.555) Adult Basic Education (CFDA # 84.002)
Federal Award Number / Year	03-PU-98, 04-PU-98, 03-PU-99, 04-PU-99 ABLE 96-97, ABLE 97-98, ABLE 98-99
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education Ohio Hi Point Joint Vocational School

Reportable Condition

The Service Center did not include Adult Basic Education and Lunch Program funds on its Schedule of Federal Assistance in the annual report for FY'98 or FY'99, which resulted in the Center not being identified as subject to OMB Circular A-133 for FY'98. By not receiving an A-133 (single) audit, the Service Center did not meet Federal reporting requirements, and could jeopardize future federal funding.

The Service Center should develop and implement controls to ensure that all federal funds are identified and included on the its Schedule of Federal Assistance.



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EDUCATIONAL SERVICE CENTER

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 4, 2000**