



**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

REGULAR AUDIT/SINGLE AUDIT(FISCAL YEAR 99)

FOR THE YEARS ENDED JUNE 30, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Mercer County Educational Service Center, Mercer County, (the Educational 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 Educational 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 Mercer County Educational Service Center, Mercer County, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2000 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Government, taken as a whole. The accompanying schedule of federal awards expenditures is 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 is 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, is fairly stated, in all material respects, in relation to the June 30, 1999, general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

January 25, 2000

Mercer County Educational Service Center

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>
Assets and Other Debits:			
Equity in Pooled Cash and Cash Equivalents	\$626,831	\$45,573	\$12,047
Receivables:			
Accounts	3,652		259
Interfund Receivable	2,800		
Prepaid Items	1,524		
Fixed Assets			
Other Debits:			
Provided from General Government Resources			
Total Assets and Other Debits	<u>\$634,807</u>	<u>\$45,573</u>	<u>\$12,306</u>
Liabilities:			
Accounts Payable	\$5,443	\$967	\$8,500
Accrued Wages and Benefits	376,882	10,249	
Compensated Absences Payable	16,610		
Interfund Payable		2,800	
Intergovernmental Payable	294,501		
Undistributed Monies			
Total Liabilities	<u>693,436</u>	<u>14,016</u>	<u>8,500</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			3,806
Fund Balances:			
Reserved:			
Reserved for Encumbrances	1,718	3,030	
Reserved for Prepaid Items	1,524		
Unreserved:			
Unreserved, Undesignated	(61,871)	28,527	
Total Fund Equity and Other Credits	<u>(58,629)</u>	<u>31,557</u>	<u>3,806</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$634,807</u>	<u>\$45,573</u>	<u>\$12,306</u>

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

<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General Fixed Asset Account Group</u>	<u>General Long-Term Debt Account Group</u>	
<u>Agency</u>			
\$4,213			\$688,664
			3,911
			2,800
			1,524
	126,004		126,004
		52,534	52,534
<u>\$4,213</u>	<u>\$126,004</u>	<u>\$52,534</u>	<u>\$875,437</u>
\$103			\$15,013
			387,131
		30,747	47,357
			2,800
		21,787	316,288
<u>4,110</u>			<u>4,110</u>
<u>4,213</u>	<u>0</u>	<u>52,534</u>	<u>772,699</u>
	126,004		126,004
			3,806
			4,748
			1,524
			(33,344)
<u>0</u>	<u>126,004</u>		<u>102,738</u>
<u>\$4,213</u>	<u>\$126,004</u>	<u>\$52,534</u>	<u>\$875,437</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues:			
Intergovernmental	\$3,096,033	\$382,682	\$3,478,715
Interest	19,836		19,836
Tuition and Fees	13,909		13,909
Extracurricular Activities	5,250	3,000	8,250
Gifts and Donations	4,953		4,953
Customer Services	617,659		617,659
Total Revenues	<u>3,757,640</u>	<u>385,682</u>	<u>4,143,322</u>
Expenditures:			
Current:			
Instruction:			
Regular	135,382	40,177	175,559
Special	1,965,672	38,806	2,004,478
Support Services:			
Pupils	917,815	87,776	1,005,591
Instructional Staff	469,196	41,248	510,444
Board of Education	16,315		16,315
Administration	208,081	98	208,179
Fiscal	20,997	3,007	24,004
Business	21,314		21,314
Operation and Maintenance of Plant	4,489	3,500	7,989
Central	6,546	11,185	17,731
Intergovernmental		205,636	205,636
Total Expenditures	<u>3,765,807</u>	<u>431,433</u>	<u>4,197,240</u>
Excess of Revenues Over (Under) Expenditures	<u>(8,167)</u>	<u>(45,751)</u>	<u>(53,918)</u>
Other Financing Sources and Uses			
Proceeds from Sale of Fixed Assets	136		136
Total Other Financing Sources (Uses)	<u>136</u>		<u>136</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(8,031)	(45,751)	(53,782)
Fund Balance at Beginning of Year	(50,598)	77,308	26,710
Fund Balance at End of Year	<u><u>(\$58,629)</u></u>	<u><u>\$31,557</u></u>	<u><u>(\$27,072)</u></u>

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General			Special Revenue		
	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$3,122,200	\$3,163,073	\$40,873	\$432,968	\$382,682	(\$50,286)
Interest	15,000	17,733	2,733			
Tuition and Fees	14,000	12,729	(1,271)			
Extracurricular Activities	5,000	5,000		3,000	3,000	
Gifts and Donations	6,000	4,953	(1,047)			
Customer Services	580,000	617,659	37,659			
Total Revenues	<u>3,742,200</u>	<u>3,821,147</u>	<u>78,947</u>	<u>435,968</u>	<u>385,682</u>	<u>(50,286)</u>
Expenditures:						
Current:						
Instruction:						
Regular	138,710	121,859	16,851	46,346	40,190	6,156
Special	1,957,840	1,934,122	23,718	200,804	174,526	26,278
Support Services:						
Pupils	914,110	895,096	19,014	95,304	79,794	15,510
Instructional Staff	476,910	440,630	36,280	127,751	121,938	5,813
Board of Education	24,120	17,274	6,846			
Administration	213,190	206,136	7,054	98	98	
Fiscal	32,250	20,987	11,263	3,333	2,892	441
Business	24,000	21,801	2,199			
Operation and Maintenance of Plant	11,600	5,430	6,170	7,000	3,500	3,500
Central	8,100	6,121	1,979	11,185	11,185	
Total Expenditures	<u>3,800,830</u>	<u>3,669,456</u>	<u>131,374</u>	<u>491,821</u>	<u>434,123</u>	<u>57,698</u>
Excess of Revenues Over (Under) Expenditures	<u>(58,630)</u>	<u>151,691</u>	<u>210,321</u>	<u>(55,853)</u>	<u>(48,441)</u>	<u>7,412</u>
Other Financing Sources and Uses						
Proceeds from Sale of Fixed Assets		136	136			
Refund of Prior Year Expenditures					2,800	2,800
Advances Out		(2,800)	(2,800)			
Total Other Financing Sources (Uses)		<u>(2,664)</u>	<u>(2,664)</u>		<u>2,800</u>	<u>2,800</u>
Excess of Revenue and Other Financing Sources						
Over (Under) Expenditures and Other Financing Uses	<u>(58,630)</u>	<u>149,027</u>	<u>207,657</u>	<u>(55,853)</u>	<u>(45,641)</u>	<u>10,212</u>
Fund Balances at Beginning of Year	438,775	438,775		85,591	85,591	
Prior Year Encumbrances Appropriated	33,626	33,626		2,247	2,247	
Fund Balance at end of Year	<u>\$413,771</u>	<u>\$621,428</u>	<u>\$207,657</u>	<u>\$31,985</u>	<u>\$42,197</u>	<u>\$10,212</u>

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

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 1999**

	Internal Service Funds
Operating Revenues:	
Extracurricular Activities	\$41,733
Operating Expenses:	
Other Expenses	41,399
Operating Income	334
 Net Income	 334
Retained Earnings at Beginning of Year	3,472
Retained Earnings at End of Year	\$3,806

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

**COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED JUNE 30, 1999**

Internal Service
Fund

Increase/(Decrease) in Cash & Cash Equivalents

Cash Flows from Operating Activities:

Extracurricular Activities	\$41,474
Other Cash Payments	<u>(32,899)</u>
Net Cash Provided by (Used for) Operating Activities	<u>8,575</u>

Net Increase (Decrease) in Cash and Cash Equivalents 8,575

Cash & Cash Equivalents at Beginning of Year	<u>3,472</u>
Cash & Cash Equivalents at End of Year	<u><u>\$12,047</u></u>

Cash Provided by (Used for) Operating Activities:

Operating Income 334

To Net Cash Provided by (Used for) Operating Activities:

Accounts Receivable	(259)
Accounts Payable	<u>8,500</u>
Total Adjustments	<u>8,241</u>

Net Cash Provided by (Used for) Operating Activities \$8,575

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Mercer County Educational Service Center (the "Educational Service Center") is located in Celina, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Parkway, Ft. Recovery, St. Henry, and Marion Local School Districts, the Coldwater Exempted Village School District, and the Celina City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally elected five-member Board form of government consisting of members elected at-large for staggered four year terms. The Educational Service Center has 44 support staff employees and 64 certified teaching personnel that provide services to the local, exempted village and city school districts.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center 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 Mercer County Educational Service Center, this includes general operations and student related activities.

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 does not have any component units.

The Educational Service Center is associated with six organizations, which are defined as jointly governed organizations and insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Northwest Ohio Area Computer Services Worker's Compensation Group Rating Plan, the Mercer-Auglaize Employee Benefit Trust, the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, and the West Central Ohio Special Education Regional Resource Center. These organizations are presented in Notes 15 and 16 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mercer 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 proprietary activities 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
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all 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 available expendable 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 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 (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Proprietary Fund Types

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 are the Educational Service Center's proprietary fund types:

Internal Service Fund - The Internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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.

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

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 funds 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.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earning components. Proprietary fund 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 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 and agency 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 fiscal year end.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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 proprietary fund types. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

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

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. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

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 Board may pass a temporary appropriation measure to meet the ordinary expenses 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 fund 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 do not exceed the amounts set forth in the budget approved by the State Department of Education. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

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.

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.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 1999, investments were limited to STAR Ohio. All investments of the Educational Service Center had a maturity of two years or less. Investment earnings are allocated to the General Fund. Interest revenue in fiscal year 1999 totaled \$19,836.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

For presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

E. 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 the purchase. In the subsequent period the prepaid asset is adjusted recording the expenditure/expense in the year in which services are consumed.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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 have any infrastructure.

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 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.

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

Entitlements

General Fund

State Foundation Program

Special Revenue Funds

Education Management Information Systems

Non-Reimbursable Grants

Special Revenue Funds

Training Ohio Parents Success
Learn and Serve Ohio Grant
Parent Mentor Program
Public School Preschool
Title VI-B
Eisenhower
Drug Free
Local Professional Development Grant
Learn and Serve America
Technology Equity

Grants and entitlements amounted to approximately 82 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

The Educational Service Center is the primary recipient of grants which passed-through to or spent on behalf of local school districts within the County. When the Educational Service Center has a financial or administrative role in grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

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.

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 vacation time leave time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for employees after 20 years of current service with the Educational Service Center, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable 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.

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 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 sixty days after year end are considered not to have been paid using current available financial resources.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures 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 expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves are established for encumbrances and prepayments.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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 could differ from those estimates.

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows 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.

3. ACCOUNTABILITY

At June 30, 1999, the General Fund had a deficit fund balance of \$58,629, which was created by the application of generally accepted accounting principles.

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law 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 is 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 are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (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 (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
Budget Basis	\$149,027	\$(45,641)
Revenue Accruals	(63,507)	0
Expenditure Accruals	(101,755)	(686)
Net Adjustment for Other Sources/Uses	2,800	(2,800)
Encumbrances	5,404	3,376
GAAP Basis	\$(8,031)	\$(45,751)

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Governing Board 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book 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 moneys 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 marking association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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; and

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. DEPOSITS AND INVESTMENTS (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year end, the Educational Service Center had \$1,375 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."

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."

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$685,453 and the bank balance was \$810,399. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the securities were held by the pledging financial institutions trust departments in the Education Service Center's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirement would potentially subject the Educational Service Center 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 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 investments in STAROhio had a carrying value and a market value of \$1,836. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. DEPOSITS AND INVESTMENTS (Continued)

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	Investments
	Equivalents/Deposits	Investments
GASB Statement 9	\$688,664	\$0
Cash on Hand	(1,375)	0
Investments:		
STAR Ohio	(1,836)	1,836
GASB Statement 3	\$685,453	\$1,836

6. 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 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 of the school district's 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 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 additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

7. RECEIVABLES

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

8. INTERFUND ACTIVITY

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

	Interfund	
	Receivable	Payables
Fund Type/Fund		
General Fund	\$2,800	\$0
Special Revenue Funds:		
Eisenhower Grant Fund	0	2800
Total Interfund Activity	\$2,800	\$2,800

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

9. FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at 6/30/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/99</u>
Furniture and Equipment	\$146,424	\$48,319	\$68,739	\$126,004

10. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Business Personal Property	\$250	\$ 40,000
Premises and Operations	250	300,000
Inland Marine Coverage	250	88,388
Automobile Combined Liability	0	1,000,000
General Liability		
Per Occurrence	0	1,000,000
Per year	0	5,000,000

There has been no significant change in coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

For fiscal year 1999, the Educational Service Center participated in the Northwest Ohio Area Computer Services Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

10. RISK MANAGEMENT (Continued)

C. Medical and Dental

The Educational Service Center participates in the Mercer-Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eight local school districts, two city school districts, and an educational service center. The Educational Service Center pays monthly premiums to the Trust for medical and dental benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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 basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of the Ohio Revised Code. The School Employees Retirement System 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 43215-363.

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 the 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 required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$37,325, \$31,091, and \$36,982, respectively; 100 percent has been contributed for fiscal years 1998 and 1997. \$11,983 representing the unpaid surcharge contribution for fiscal year 1999 is recorded as a liability within the respective funds and the general long-term obligations account.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefits are established by Chapter 3307, of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS, 275 E. Broad St., Columbus, Ohio 43215-3771, or by calling (614)-227-4090.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual salary. The Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion to fund pension obligations was 10.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$126,215, \$193,480, and \$204,545, respectively; 100 percent has been contributed for fiscal years 1998 and 1997. \$126,215 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds and the general long-term obligations account.

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, 1999, all members of the Governing Board have elected social security. The Educational Service Center's liability is 6.2 percent of wages paid.

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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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. 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 of 3.5 percent for fiscal year 1999. For the Educational Service Center this amount equaled \$168,286 during 1999.

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 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

12. POSTEMPLOYMENT BENEFITS (Continued)

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 4.87 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. 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. 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 \$52,326 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, were \$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.

13. EMPLOYEE BENEFITS

A. Compensated Absences

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

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 195 days for all personnel. Upon retirement, payment is made for one-fourth of accrued sick leave credit up to a maximum of 30 days for all personnel.

B. Health, Dental, and Life Insurance

The Educational Service Center provides health insurance benefits to employees through the Mercer-Auglaize Schools Employee Benefits Trust. The premium varies with each employee depending on marital and family status. The Educational Service Center also provides dental insurance through the same provider. The premium varies with each employee depending on marital and family status. The premium is a set fee per employee covered.

The Educational Service Center provides life insurance benefits of \$20,000 per employee, whose benefits reduce to 42 percent, 28 percent, 19 percent, and 13 percent at ages 70, 75, 80, 85, respectively, through CoreSource. The premium is a set fee per employee, which is reduced as above.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

14. LONG-TERM OBLIGATIONS

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

	Balance at 07/01/98	Additions	Deductions	Balance at 06/30/99
Pension Obligation	\$14,812	\$6,975	\$0	\$21,787
Compensated Absences	30,448	299	0	30,747
Total Long-Term Obligations	\$45,260	\$7,274	\$0	\$52,534

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

15. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of twenty nine public school districts. 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. NOACSC is governed by the Board of Directors and its participating members. To obtain financial information write to Michael Wildermuth, Director, at the Northwest Ohio Area Computer Services Cooperative, 645 South Main Street, Lima, Ohio 45804.

Mercer County Local Professional Development Committee - The Educational Service Center is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. The Educational Service Center is the fiscal agent for the Committee.

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.

SERRC is governed by a board of 52 members made up of representatives from 50 superintendents of the participating districts, one non-public school, and one from 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

West Central Regional Professional Development Center (Center) - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a governing board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Dorothy Oldham, Treasurer at the Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

16. INSURANCE PURCHASING POOL

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

Mercer-Auglaize Employee Benefit Trust - The organization is governed by the Mercer-Auglaize Area Schools Regional Council of Governments, whose members are comprised of the Superintendent of each member school. This self-funded self-insurance consortium was formed to provide health and medical benefits to the members' employees. District Boards of Education appoint a representative to serve on the Board of Directors. A chairman and secretary are elected by the members. The Board of Directors selects the carrier, consultant and third party administrator, and approves the contribution rate necessary to fund the programs. Monthly premiums are paid into a trust account by the members. The entire program is administered by a third party administrator.

17. STATE SCHOOL FUNDING DECISION

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 that 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 \$3,162,798 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 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 December 1, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in the 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

17. STATE SCHOOL FUNDING DECISION (Continued)

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.

18. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations.

The Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting through the State's Education Management and Information System (EMIS).

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting, and State of Ohio uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" payments. Further, the State processes a significant amount of financial and nonfinancial information about the Educational Service Center through EMIS. The State is responsible for remediating these systems.

To the best of management's belief, as of January 25, 2000, the Educational Service Center experienced no significant interruption of mission critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Educational Service Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

19. CONTINGENCIES

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1999.

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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>Internal Service</u>
Assets and Other Debits:			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$472,400	\$87,838	\$3,472
Receivables:			
Accounts	4,348		
Intergovernmental	62,812		
Fixed Assets			
Other Debits:			
Provided from General Government Resources			
Total Assets and Other Debits	<u>\$539,560</u>	<u>\$87,838</u>	<u>\$3,472</u>
Liabilities, Fund Equity, and Other Credits:			
Liabilities:			
Accounts Payable	\$643		
Accrued Wages and Benefits	305,968	10,530	
Compensated Absences Payable	25,573		
Intergovernmental Payable	257,974		
Undistributed Monies			
Total Liabilities	<u>590,158</u>	<u>10,530</u>	<u>0</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			3,472
Fund Balances:			
Reserved for Encumbrances	33,626	2,247	
Unreserved, Undesignated	(84,224)	75,061	
Total Fund Equity and Other Credits	<u>(50,598)</u>	<u>77,308</u>	<u>3,472</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$539,560</u>	<u>\$87,838</u>	<u>\$3,472</u>

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

<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General Fixed Asset Account Group</u>	<u>General Long-Term Debt Account Group</u>	
<u>Agency</u>			
\$6,000			\$569,710
847			5,195
	146,424		62,812
			146,424
		45,260	45,260
<u>\$6,847</u>	<u>\$146,424</u>	<u>\$45,260</u>	<u>\$829,401</u>
\$753			\$1,396
			316,498
		30,448	56,021
		14,812	272,786
<u>6,094</u>			<u>6,094</u>
<u>6,847</u>	<u>0</u>	<u>45,260</u>	<u>652,795</u>
	146,424		146,424
			3,472
			35,873
			(9,163)
<u>0</u>	<u>146,424</u>		<u>176,606</u>
<u>\$6,847</u>	<u>\$146,424</u>	<u>\$45,260</u>	<u>\$829,401</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues:			
Intergovernmental	\$2,273,363	\$371,706	\$2,645,069
Interest	15,046		15,046
Tuition and Fees	5,420		5,420
Rent	66,765		66,765
Extracurricular Activities	951	1,280	2,231
Gifts and Donations	5,369		5,369
Customer Services	1,047,406		1,047,406
Total Revenues	<u>3,414,320</u>	<u>372,986</u>	<u>3,787,306</u>
Expenditures:			
Current:			
Instruction:			
Regular	38,858	15,686	54,544
Special	1,691,393	25,484	1,716,877
Support Services:			
Pupils	738,897	85,319	824,216
Instructional Staff	438,739	44,111	482,850
Board of Education	13,008		13,008
Administration	203,868		203,868
Fiscal	29,297	2,667	31,964
Business	18,914		18,914
Operation and Maintenance of Plant	10,322	3,425	13,747
Central	5,607	12,577	18,184
Intergovernmental		180,720	180,720
Total Expenditures	<u>3,188,903</u>	<u>369,989</u>	<u>3,558,892</u>
Excess of Revenues Over (Under) Expenditures	<u>225,417</u>	<u>2,997</u>	<u>228,414</u>
Other Financing Sources and Uses			
Proceeds from Sale of Fixed Assets	653		653
Refund of Prior Year Expenditures	9,615		9,615
Federal and State Subsidies	275		275
Total Other Financing Sources (Uses)	<u>10,543</u>		<u>10,543</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	235,960	2,997	238,957
Fund Balance at Beginning of Year	<u>(286,558)</u>	<u>74,311</u>	<u>(212,247)</u>
Fund Balance at End of Year	<u><u>(\$50,598)</u></u>	<u><u>\$77,308</u></u>	<u><u>\$26,710</u></u>

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998**

	General			Special Revenue		
	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$2,270,000	\$2,305,861	\$35,861	\$389,179	\$371,706	(\$17,473)
Interest	10,000	15,046	5,046			
Tuition and Fees	5,000	5,301	301			
Extracurricular Activities	1,000	1,508	508	1,280	1,280	
Gifts and Donations	8,000	5,369	(2,631)			
Customer Services	790,000	1,047,406	257,406			
Total Revenues	3,084,000	3,380,491	296,491	390,459	372,986	(17,473)
Expenditures:						
Current:						
Instruction:						
Regular	39,000	31,304	7,696	37,911	15,686	22,225
Special	1,673,170	1,643,458	29,712	165,182	146,566	18,616
Support Services:						
Pupils	719,600	702,988	16,612	91,387	77,993	13,394
Instructional Staff	461,800	452,947	8,853	120,309	102,203	18,106
Board of Education	20,520	12,006	8,514			
Administration	205,900	198,694	7,206	7,039		7,039
Fiscal	32,750	28,867	3,883	3,000	2,667	333
Business	21,000	19,678	1,322			
Operation and Maintenance of Plant	11,700	10,634	1,066	6,925	3,425	3,500
Central	6,000	5,906	94	17,589	14,032	3,557
Total Expenditures	3,191,440	3,106,482	84,958	449,342	362,572	86,770
Excess of Revenues Over (Under) Expenditures	(107,440)	274,009	381,449	(58,883)	10,414	69,297
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets		653	653			
Refund of Prior Year Expenditures		9,615	9,615		0	0
Advances In		400	400			
Total Other Financing Sources (Uses)		10,668	10,668		0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(107,440)	284,677	392,117	(58,883)	10,414	69,297
Fund Balances at Beginning of Year	149,162	149,162		72,236	72,236	
Prior Year Encumbrances Appropriated	4,935	4,935		2,941	2,941	
Fund Balance at End of Year	\$46,657	\$438,774	\$392,117	\$16,294	\$85,591	\$69,297

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

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 1998**

	Proprietary Fund Type Internal Service
Operating Revenues:	
Extracurricular Activities	\$29,334
Operating Expenses:	
Other Expenses	28,616
Operating Income	718
Net Income	718
Retained Earnings at Beginning of Year	2,754
Retained Earnings at End of Year	\$3,472

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

**COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED JUNE 30, 1998**

	Proprietary Fund Type
	Internal Service
Increase/(Decrease) in Cash & Cash Equivalents	
Cash Flows from Operating Activities:	
Extracurricular Activities	\$29,334
Other Cash Payments	(28,616)
Net Cash Provided by (Used for) Operating Activities	718
 Net Increase (Decrease) in Cash and Cash Equivalents	718
 Cash & Cash Equivalents at Beginning of Year	2,754
Cash & Cash Equivalents at End of Year	\$3,472
 Reconciliation of Operating Income (loss) to Net Cash Provided by (Used for) Operating Activities:	
 Operating Income	718
 Net Cash Provided by (Used for) Operating Activities	\$718

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Mercer County Educational Service Center (the "Educational Service Center") is located in Celina, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Parkway, Ft. Recovery, St. Henry, and Marion Local School Districts, the Coldwater Exempted Village School District, and the Celina City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally elected five-member Board form of government consisting of members elected at-large for staggered four year terms. The Educational Service Center has 32 support staff employees and 54 certified teaching personnel that provide services to the local, exempted village and city school districts.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center 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 Mercer County Educational Service Center, this includes general operations and student related activities.

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 does not have any component units.

The Educational Service Center is associated with five organizations, which are defined as jointly governed organizations and insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Northwest Ohio Area Computer Service Worker's Compensation Group Rating Plan, the Mercer-Auglaize Employee Benefit Trust, Mercer County Local Professional Development Committee, and the West Central Special Education Regional Resource Center. These organizations are presented in Notes 14 and 15 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mercer 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 proprietary activities 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
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all 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 available expendable 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 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 (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Proprietary Fund Types

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 are the Educational Service Center's proprietary fund types:

Internal Service Fund - The Internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

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.

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

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 funds 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.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earning components. Proprietary fund 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 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 and agency 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 fiscal year end.

In applying the susceptible to the 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 proprietary fund types. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

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 Board may pass a temporary appropriation measure to meet the ordinary expenses 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 fund 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 do not exceed the amounts set forth in the budget approved by the State Department of Education. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

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.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 1998, investments were limited to STAR Ohio. All investments of the Educational Service Center had a maturity of two years or less. Investment earnings are allocated to the General Fund. Interest revenue in fiscal year 1998 totaled \$15,046.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1998.

For presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

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 the purchase. In the subsequent period the prepaid asset is adjusted recording the expenditure/expense 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 the 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 have any infrastructure.

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
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as 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.

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

Entitlements

General Fund

State Foundation Program

Special Revenue Funds

Education Management Information Systems

Non-Reimbursable Grants

Special Revenue Funds

Training Ohio Parents Success

Learn and Serve Ohio Grant

Parent Mentor Program

Public School Preschool

Title VI-B

Eisenhower

Drug Free

Local Professional Development Grant

Technology Equity

Grants and entitlements amounted to approximately 70 percent of the Educational Service Center's operating revenue during the 1998 fiscal year.

The Educational Service Center is the primary recipient of grants which passed-through to or spent on behalf of local school districts within the County. When the Educational Service Center has a financial or administrative role in grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

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. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences (Continued)

The Educational Service Center records a liability for accumulated unused vacation time leave time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for employees after 20 years of current service with the Educational Service Center, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable 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.

I. 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 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 sixty days after year end are considered not to have been paid using current available financial resources.

J. Interfund Transactions

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

K. 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 expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves are established for encumbrances.

L. 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 could differ from those estimates.

M. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows 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 THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

3. ACCOUNTABILITY

At June 30, 1998, the General Fund had a deficit fund balance of \$50,598, which was created by the application of generally accepted accounting principles.

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law 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 is 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 are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (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 (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
Budget Basis	\$284,677	\$10,414
Revenue Accruals	33,829	0
Expenditure Accruals	(116,047)	(9,664)
Net Adjustment for Other Sources/Uses	(125)	0
Encumbrances	33,626	2,247
GAAP Basis	\$235,960	\$2,997

5. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Governing Board 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

5. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book 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 moneys 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 marking association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

5. DEPOSITS AND INVESTMENTS (Continued)

Cash on Hand: At fiscal year end, the Educational Service Center had \$75 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."

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."

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$567,889 and the bank balance was \$691,720. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the securities were held by the pledging financial institutions trust departments in the Education Service Center's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirement would potentially subject the Educational Service Center 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 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 investments in STAROhio had a carrying value and a market value of \$1,746. 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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$569,710	\$0
Cash on Hand	(75)	0
Investments:		
STAR Ohio	(1,746)	1,746
GASB Statement 3	\$567,889	\$1,746

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

6. 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 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's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's 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 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 additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

7. RECEIVABLES

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

8. FIXED ASSETS

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

Asset Category	Balance at 6/30/97	Additions	Deletions	Balance at 6/30/98
Furniture and Equipment	\$137,187	\$15,055	\$5,818	\$146,424

9. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1998, the Educational Service Center's insurance coverage was as follows:

Type of Coverage	Deductible	Liability Limit
Business Personal Property	\$250	\$ 40,000
Premises and Operations	250	300,000
Inland Marine Coverage	250	88,388
Automobile Combined Liability	0	1,000,000
General Liability		
Per occurrence	0	1,000,000
Per year		5,000,000

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

9. RISK MANAGEMENT (Continued)

A. Property and Liability (Continued)

There has been no significant change in coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

For fiscal year 1998, the Educational Service Center participated in the Northwest Ohio Area Computer Services Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

C. Medical and Dental

The Educational Service Center participates in the Mercer-Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eight local school districts, two city school districts, and an educational service center. The Educational Service Center pays monthly premiums to the Trust for medical and dental benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

10. 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 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. The School Employees Retirement System 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 43215-363.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

10. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

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; 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 required contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$31,091, \$36,982, and \$35,629, respectively; 100 percent has been contributed for fiscal years 1997 and 1996. \$9,543 representing the unpaid surcharge contribution for fiscal year 1998 is recorded as a liability within the respective funds and the general long-term obligations account.

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. The plan offers 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, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS, 275 E. Broad St., Columbus, Ohio 43215-3771, or by calling (614)-227-4090.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 1998 were 9.3 percent of covered payroll for members and 14 percent for employers; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$193,480, \$204,545, and \$161,246, respectively; 100 percent has been contributed for fiscal years 1997 and 1996. \$193,480 representing the unpaid contribution for fiscal year 1998 is recorded as a liability within the respective funds and the general long-term obligations account.

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, all members of the Governing Board have elected social security. The Educational Service Center's liability is 6.2 percent of wages paid.

11. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

11. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Health care benefits are financed on a pay-as-you-go basis. 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 3.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$64,493 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, 1998, 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 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% contribution is allocated to providing health care benefits. At June 30, 1998, the allocation rate is 4.98%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 1997, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Educational Service Center this amount, including the surcharge, equaled \$36,528 during the 1998 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 125% of annual health care expenses. Expenses for health care at June 30, 1997 were \$97,429,197 and the target level was \$121.8 million. At June 30, 1997 the Retirement System's net assets available for payment of the health care benefits was \$146.4 million. The number of participants currently receiving health care benefits is approximately 48,200.

12. EMPLOYEE BENEFITS

A. Compensated Absences

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

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 195 days for all personnel. Upon retirement, payment is made for one-fourth of accrued sick leave credit up to a maximum of 30 days for all personnel.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

12. EMPLOYEE BENEFITS (Continued)

B. Health, Dental, and Life Insurance

The Educational Service Center provides health insurance benefits to employees through the Mercer-Auglaize Schools Employee Benefits Trust. The premium varies with each employee depending on marital and family status. The Educational Service Center also provides dental insurance through the same provider. The premium varies with each employee depending on marital and family status. The premium is a set fee per employee covered.

The Educational Service Center provides life insurance benefits of \$20,000 per employee, whose benefits reduce to 42%, 28%, 19%, and 13% at ages 70, 75, 80, 85, respectively, through CoreSource. The premium is a set fee per employee, which is reduced as above.

13. LONG-TERM OBLIGATIONS

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

	Balance at 07/01/97	Additions	Deductions	Balance at 06/30/98
Pension Obligation	\$13,894	\$918	\$0	\$14,812
Compensated Absences	23,455	6,993	0	30,448
Total Long-Term Obligations	<u>\$37,349</u>	<u>\$7,911</u>	<u>\$0</u>	<u>\$45,260</u>

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

14. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of twenty nine public school districts. 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. NOACSC is governed by the Board of Directors and its participating members. To obtain financial information write to Michael Wildermuth, Director, at the Northwest Ohio Area Computer Services Cooperative, 645 South Main Street, Lima, Ohio 45804.

Mercer County Local Professional Development Committee - The Educational Service Center is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. The Educational Service Center is the fiscal agent for the Committee.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

14. JOINTLY GOVERNED ORGANIZATIONS (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.

SERRC is governed by a board of 52 members made up of representatives from 50 superintendents of the participating districts, one non-public school, and one from 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.

15. INSURANCE PURCHASING POOL

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

Mercer-Auglaize Employee Benefit Trust - The organization is governed by the Mercer-Auglaize Area Schools Regional Council of Governments, whose members are comprised of the Superintendent of each member school. This self-funded self-insurance consortium was formed to provide health and medical benefits to the members' employees. District Boards of Education appoint a representative to serve on the Board of Directors. A chairman and secretary are elected by the members. The Board of Directors selects the carrier, consultant and third party administrator, and approves the contribution rate necessary to fund the programs. Monthly premiums are paid into a trust account by the members. The entire program is administered by a third party administrator.

16. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The State School Foundation Program, which provides a significant amount of monetary support to the Educational Service Center was the most significant portion of the plan declared unconstitutional. For fiscal year ended June 30, 1998, the Educational Service Center received \$2,293,984 in total (all funds) support. 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 that system.

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 is currently reviewing the new laws to determine whether they are constitutional under the "thorough and efficient" clause of the Ohio Constitution. According to the Ohio Attorney General's Office, a decision is expected from 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

16. STATE SCHOOL FUNDING DECISION (Continued)

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.

17. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal 1999.

The Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting Center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting through the State's Education Management and Information System (EMIS).

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting, and State of Ohio uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" payments. Further, the State processes a significant amount of financial and nonfinancial information about the District through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Educational Service Center is or will be Year 2000 ready, that the Educational Service Center's remediation efforts will be successful in whole or in part, or that parties with whom the Educational Service Center does business will be year 2000 ready.

18. CONTINGENCIES

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1998.

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
National School Lunch Program	048546-04-PU	10.555	\$242	\$0	\$242	\$0
Total U.S. Department of Agriculture			242	0	242	0
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Special Education Cluster:						
Title VI-B, Special Education Grants to States	048546-6B-SF	84.027	205,636	0	205,636	0
Preschool Grant	048546-PG-S1-97	84.173	17,784	0	35,545	0
Preschool Grant	048546-PG-S1-98	84.173	14,145	0	4,737	0
Total Preschool Grant			31,929	0	40,282	0
Total Special Education Cluster			237,565	0	245,918	0
Drug-Free Schools Grant	048546-DR-S1-98	84.186	0	0	10,155	0
Drug-Free Schools Grant	048546-DR-S1-99	84.186	14,696	0	11,999	0
Total Drug-Free Schools Grant			14,696	0	22,154	0
Eisenhower Professional Development State Grants	048546-MS-S1	84.281	0	0	3,105	0
Eisenhower Professional Development State Grants	048546-MS-S1	84.281	0	0	15,856	0
Eisenhower Professional Development State Grants	048546-MS-S1-99	84.281	13,554	0	560	0
Total Eisenhower Professional Development State Grants			13,554	0	19,521	0
Goals 2000 Project Grant	048546-G2-S2	84.276	0	0	11,185	0
Total U.S. Department of Education			265,815	0	298,778	0
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
(Passed through Ohio Department of Education)						
Learn and Serve America	048546-SV-S1-99	94.004	15,000	0	11,780	0
Total Federal Assistance			\$281,057	\$0	\$310,800	\$0

See Accompanying Notes to the Schedule of Federal Awards Expenditures

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

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

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

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To The Board of Education:

We have audited the financial statements of Mercer County Education Service Center, Mercer County, Ohio, (the Educational Service Center) as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated January 25, 2000. 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 Educational 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 1999-10254-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated January 25, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational 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 internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated January 25, 2000.

This report is intended for the information of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Jim Petro
Auditor of State

January 25, 2000



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

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To The Board of Education:

Compliance

We have audited the compliance of the Mercer County Educational Service Center, Mercer County, Ohio, (the Educational 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 year ended June 30, 1999. The Educational 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 Educational Service Center's management. Our responsibility is to express an opinion on Educational 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 Educational 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 Educational Service Center's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Educational 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 Educational 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.

Internal Control Over Compliance
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, 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

January 25, 2000

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEARS ENDED JUNE 30, 1999-1998**

1. SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 1999

(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?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Title VI-B - CFDA # 84.027 & Pre-School Grant - CFDA # 84.173
(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
FOR THE YEARS ENDED JUNE 30, 1999-1998**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

Finding Number	1999-10254- 001
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Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The Educational Service Center expended funds in excess of appropriations for various line items throughout fiscal years 1998 and 1999 in the following funds:

Fiscal Year 1998	Rotary Fund	TOPS Grant	Learn and Serve Ohio Grant
	Misc. State Grants	Eisenhower Grant	Preschool Grant
	Misc. Federal Grants		

Fiscal Year 1999	Rotary Fund	Misc. State Grants	Learn and Serve Ohio Grant
	Misc. Federal Grants		

For the periods tested, the expenditures in excess of appropriations ranged from \$1,042 to \$39,743 and from 5.46% to 363% of the amounts appropriated by the Board.

Failure to comply with this Section of Code may result in deficit spending and misappropriation of funds. The Educational Service Center should monitor the actual expenditures and the appropriations at the legal level of control established by the Board.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999**

None



STATE OF OHIO
OFFICE OF THE AUDITOR

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MERCER COUNTY EDUCATIONAL SERVICE CENTER

MERCER 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
FEBRUARY 22, 2000**