



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1998-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Shelby County Educational Service Center
129 E Court St., 4th Floor
Sidney, Ohio 45365

Governing Board:

We have audited the accompanying general purpose financial statements of the Shelby County Educational Service Center, Shelby County, (the "ESC"), as of and for the years ended June 30, 1999, and June 30, 1998. These general purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these 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 general purpose 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 Shelby County Educational Service Center, Shelby County, as of June 30, 1999, and June 30, 1998, and the results of its operations, cash flows of the nonexpendable trust fund, and the statement of changes in net assets/statement of assets - investment trust fund, for the years then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the accompanying general-purpose financial statements, during the year ended June 30, 1998, the ESC changes its method of accounting for investments per GASB 31.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2000, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

JIM PETRO
Auditor of State

January 19, 2000

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

	Governmental Fund Types		Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Trust	General	General	
				Fixed Assets	Long-Term Obligations	
ASSETS AND OTHER DEBITS						
ASSETS:						
Equity in pooled cash and cash equivalents	\$244,619	\$121,264	\$564,634			\$930,517
Equity in pooled cash and cash equivalents - nonexpendable trust fund . .			6,909			6,909
Investments	146,220		458,584			604,804
Receivables (net of allowances of uncollectibles):						
Accounts	3,443	780				4,223
Accrued interest	1,180		1,307			2,487
Due from other governments	101,581	13,923	10,981			126,485
Prepayments	5,459	18				5,477
Materials and supplies inventory	4,995					4,995
Property, plant and equipment (net of accumulated depreciation where applicable)				\$155,389		155,389
OTHER DEBITS:						
Amount to be provided for retirement of general long-term obligations					\$78,875	78,875
Total assets and other debits	\$507,497	\$135,985	\$1,042,415	\$155,389	\$78,875	\$1,920,161
LIABILITIES, EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	\$2,560					\$2,560
Accrued wages and benefits	92,124	\$40,718				132,842
Compensated absences payable	26,953				\$74,307	101,260
Pension obligation payable					4,568	4,568
Deferred revenue	1,180					1,180
Deposits held and due to others						0
Total liabilities	122,817	40,718	0		78,875	242,410
EQUITY AND OTHER CREDITS:						
Investment in general fixed assets				\$155,389		155,389
Fund balances:						
Reserved for encumbrances	32,171	18,029				50,200
Reserved for external investment pool participants			868,966			868,966
Reserved for supplies inventory	4,995					4,995
Reserved for prepayments	5,459	18				5,477
Reserved for principal endowment			168,542			168,542
Unreserved-undesignated	342,055	77,220	4,907			424,182
Total equity and other credits	384,680	95,267	1,042,415	155,389		1,677,751
Total liabilities, equity and other credits . .	\$507,497	\$135,985	\$1,042,415	\$155,389	\$78,875	\$1,920,161

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

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

	Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Revenues:				
From local sources:				
Tuition	\$300			\$300
Earnings on investments	34,466		\$158	34,624
Services provided to school districts	1,066,107			1,066,107
Other local revenues	47,746	\$7,001	3,825	58,572
Other revenue	141	108,945		109,086
Intergovernmental - State	619,575	158,038		777,613
Intergovernmental - Federal	30,155	217,994		248,149
Total revenue	1,798,490	491,978	3,983	2,294,451
Expenditures:				
Current:				
Instruction:				
Regular		136,089		136,089
Special	487,252	21,518		508,770
Support services:				
Pupil	379,659	81,941		461,600
Instructional staff	375,934	58,603		434,537
Board of Education	17,534			17,534
Administration	168,306	5,533		173,839
Fiscal	66,848	338		67,186
Business	13,306			13,306
Operations and maintenance	5,137	35		5,172
Pupil transportation	28			28
Central	131,241			131,241
Community services		6,562	2,700	9,262
Extracurricular activities	915			915
Intergovernmental pass-through		221,901		221,901
Total expenditures	1,646,160	532,520	2,700	2,181,380
Excess (deficiency) of revenues over (under) expenditures	152,330	(40,542)	1,283	113,071
Other financing sources:				
Proceeds from sale of assets	672			672
Total other financing sources	672			672
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	153,002	(40,542)	1,283	113,743
Fund balances, July 1	231,878	135,809	3,624	371,311
Decrease in reserve for inventory	(200)			(200)
Fund balances, June 30	\$384,680	\$95,267	\$4,907	\$484,854

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

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

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Tuition.....	\$300	\$300	\$0
Earnings on investments.....	41,000	39,208	(1,792)
Services provided to school districts	969,428	969,428	0
Other local revenues.....	39,648	39,643	(5)
Other revenue	145	141	(4)
Intergovernmental - State.....	628,227	626,514	(1,713)
Intergovernmental - Federal.....	25,253	25,253	0
Total revenues.....	<u>1,704,001</u>	<u>1,700,487</u>	<u>(3,514)</u>
Expenditures:			
Current:			
Instruction:			
Regular.....			
Special.....	632,122	539,888	92,234
Support services:			
Pupil.....	477,967	398,252	79,715
Instructional staff.....	440,791	381,072	59,719
Board of Education.....	32,777	19,039	13,738
Administration.....	209,527	176,001	33,526
Fiscal.....	81,573	73,322	8,251
Business.....	17,280	13,306	3,974
Operations and maintenance.....	26,328	5,029	21,299
Pupil transportation.....	1,070	29	1,041
Central.....	159,982	133,803	26,179
Community services.....			
Extracurricular activities.....	915	915	0
Total expenditures.....	<u>2,080,332</u>	<u>1,740,656</u>	<u>339,676</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(376,331)</u>	<u>(40,169)</u>	<u>336,162</u>
Other financing sources (uses):			
Refund of prior year's expenditures.....	4,660	4,660	0
Advances (out).....	(20,000)		20,000
Proceeds from sale of fixed assets.....	672	672	0
Total other financing sources (uses).....	<u>(14,668)</u>	<u>5,332</u>	<u>20,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)...	<u>(390,999)</u>	<u>(34,837)</u>	<u>356,162</u>
Fund balances, July 1.....	373,857	373,859	2
Prior year encumbrances appropriated...	17,142	17,142	0
Fund balances, June 30.....	<u>\$0</u>	<u>\$356,164</u>	<u>\$356,164</u>

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

Special Revenue			Total (Memorandum only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$300	\$300	\$0
			41,000	39,208	(1,792)
			969,428	969,428	0
\$7,000	\$7,000	\$0	46,648	46,643	(5)
			145	141	(4)
158,039	158,039	0	786,266	784,553	(1,713)
217,994	204,071	(13,923)	243,247	229,324	(13,923)
383,033	369,110	(13,923)	2,087,034	2,069,597	(17,437)
58,060	48,687	9,373	58,060	48,687	9,373
202,432	168,031	34,401	834,554	707,919	126,635
118,578	116,118	2,460	596,545	514,370	82,175
101,569	97,524	4,045	542,360	478,596	63,764
			32,777	19,039	13,738
5,961	5,961	0	215,488	181,962	33,526
1,062	723	339	82,635	74,045	8,590
600	600	0	17,880	13,906	3,974
			26,328	5,029	21,299
			1,070	29	1,041
			159,982	133,803	26,179
8,990	6,562	2,428	8,990	6,562	2,428
			915	915	0
497,252	444,206	53,046	2,577,584	2,184,862	392,722
(114,219)	(75,096)	39,123	(490,550)	(115,265)	375,285
			4,660	4,660	0
			(20,000)	0	20,000
			672	672	0
			(14,668)	5,332	20,000
(114,219)	(75,096)	39,123	(505,218)	(109,933)	395,285
82,059	82,059	0	455,916	455,918	2
32,160	32,160	0	49,302	49,302	0
\$0	\$39,123	\$39,123	\$0	\$395,287	\$395,287

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Fiduciary Fund Type
	Nonexpendable Trust
Operating revenues:	
Investment earnings.	\$13,425
Total operating revenues.	13,425
Operating expenses:	
Other operating expenses	1,250
Total operating expenses	1,250
Operating income	12,175
Fund balance at July 1	156,367
Fund balance at June 30	\$168,542

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

STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Fiduciary Fund Type
	Nonexpendable Trust
Cash flows from operating activities:	
Cash payments for other expenses	(\$1,250)
Net cash used in operating activities	(1,250)
Cash flows from investing activities:	
Interest received	2,573
Net cash provided by investing activities	2,573
Net increase in cash and cash equivalents.	1,323
Cash and cash equivalents at beginning of year	5,586
Cash and cash equivalents at end of year	\$6,909
Reconciliation of operating income to net cash used in operating activities:	
Operating income.	\$12,175
Adjustments to reconcile operating income to net cash used in operating activities:	
Interest reported as operating income	(13,425)
Net cash used in operating activities	(\$1,250)

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

STATEMENT OF NET ASSETS
 INVESTMENT TRUST FUND
 JUNE 30, 1999

	Fiduciary Fund Type
	Investment Trust
Assets:	
Investments	\$304,432
Cash equivalents	439,870
Cash.	123,424
Accrued interest receivable.	1,240
Total assets	\$868,966
 Net assets available to participants	 \$868,966

STATEMENT OF CHANGES IN NET ASSETS
 INVESTMENT TRUST FUND
 JUNE 30, 1999

Operations:	
Net Investment Income	\$38,606
Capital Transactions:	
Proceeds of Investments sold	(461,340)
Purchase of Investments	461,340
Purchase of cash equivalents.	176,202
Increase from Capital Transactions	176,202
 Total increase in net assets	 214,808
 Net assets at July 1, 1998	 654,158
Net assets at June 30, 1999	\$868,966

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE ENTITY

The Shelby County Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of ESCs and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center". The ESC is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 30 non-certificated employees and 30 certificated employees to provide services to approximately 4,955 students in seven local districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the ESC 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 ESC 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 ESC's significant accounting policies are described below.

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity." The financial statements include all funds, account groups, agencies, boards, commissions, and component units for which the ESC is "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC and whether exclusion would cause the ESC's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependence and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Based upon the application of these, the ESC has no component units. The following organizations are described due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATION

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 29 member school districts. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the ESC does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. The Reporting Entity (Continued)

JOINTLY GOVERNED ORGANIZATION (Continued)

Western Ohio Computer Organization (WOCO) (Continued)

In the case of WOCO, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the ESC's financial statements but the funds held on behalf of WOCO by the ESC is included as an investment trust fund.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP is a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting (Continued)

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund, a nonexpendable trust fund and an investment trust fund. The nonexpendable trust fund and investment trust fund are accounted for on the accrual basis of accounting. The expendable trust fund is accounted for in the same manner as governmental funds. A separate Statement of Net Assets and Statement of Changes in Net Assets is presented for the investment trust fund on page 10.

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 group of accounts is established to account for all fixed assets of the ESC.

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

C. Measurement Focus/Basis of Accounting

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

The nonexpendable trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund is included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is sixty days after the June 30 year end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The nonexpendable trust fund and investment trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets

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

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

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

Estimated Resources:

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

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriations measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any funds appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the ESC during fiscal 1999 in the following amounts:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets (Continued)

	<u>Increase</u>	<u>Decrease</u>
General Fund		\$(131,283)
Special Revenue Funds	\$42,027	
Expendable Trust Fund	1,215	
Nonexpendable Trust Fund	143	

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.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the combined balance sheet.

During 1999, investments were limited to nonnegotiable certificates of deposit, common stock (see below) and a money market account. Investments are reported at fair value which is based on quoted market prices. Investments in non-participating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

While common stock is not an allowable investment according to Ohio Statute, the ESC has been endowed with a gift of stock to its nonexpendable trust fund a portion of this stock is due to the Sidney City School District. The portion due to the Sidney City School District is reported as an investment trust fund. (See Note 5). No public funds were used to acquire the stock.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The following funds were credited with more interest revenue than would have been received based upon their share of the ESC's investments:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Investments</u>	<u>Interest Assigned By Other Funds</u>
General Fund	<u>\$34,466</u>	<u>\$11,390</u>	<u>\$23,076</u>

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

An analysis of the Treasurer's investment account at year end is provided in Note 4.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

G. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$250 and a useful life of less than one year. No depreciation is recognized for assets in the general fixed assets account group. The ESC does not possess any infrastructure.

H. Intergovernmental Revenues

In government funds, entitlements and non-reimbursable grants (similar to entitlements and shared revenues) are recorded as receivables and revenue when measurable and available (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue
Management Information Systems
Training Ohio's Parents for Success
Eisenhower
Professional Development Block Grant
SchoolNet Professional Development
Title VI-B
Pre-School
Alternative School Grant

Grants and entitlements amounted to 44% of the ESC's operating revenue during the 1999 fiscal year.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Compensated Absences

Compensated absences of the ESC consist of vacation leave (including compensatory time) and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave (including compensatory time) is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation (including compensatory time) and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation (including compensatory time) and severance liabilities of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

J. Long-Term Obligations

For long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, amounts available for external investment pool participants, prepaid assets and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Interfund Transactions

During the course of normal operations, the ESC may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The ESC made no operating transfers during fiscal year 1999.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had no short-term interfund loans receivable or payable at June 30, 1999.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 1999.

M. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. Estimates

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

O. Memorandum Only - Total Columns

Total columns on the GPFS 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 changes in financial position in conformity with GAAP. 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, 1999
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balance at June 30, 1999 included the following individual fund deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Management Information System	\$ (4)

This fund complied with Ohio State law, which does not permit a cash basis deficit at year end. The deficit in the Management Information System special revenue fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages attributable to the fiscal year. This deficit will be eliminated as revenues become available to cover these costs as they are incurred.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". State statutes require the classification of monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

- A. 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 or interest by the United States;
- B. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

- C. 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;
- D. Bonds and other obligations of the State of Ohio;
- E. 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;
- F. The State Treasury Asset Reserve of Ohio (STAR Ohio);
- G. 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 monies available for investment at any one time; and
- H. Under limited circumstances, corporate debt instruments 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 ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year end, the ESC had \$75 in undeposited cash on hand which is included on the combined balance sheet of the ESC 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 and Reverse Repurchase Agreements".

Deposits: At year end, the carrying amount of the ESC's deposits was \$1,240,851 and the bank balance was \$1,311,004. These balances include \$303,500 in nonnegotiable certificates of deposit and \$858,114 in a money market account. Of the bank balance:

- A. \$317,318 was covered by federal depository insurance or by collateral held by the ESC in the ESC's name.
- B. \$993,686 was uninsured and unregistered because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Deposits: (Continued)

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The ESC's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name.

	<u>Category 1</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Stock	<u>\$301,304</u>	<u>\$301,304</u>	<u>\$301,304</u>
Total Investments	<u>\$301,304</u>	<u>\$301,304</u>	<u>\$301,304</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 937,426	\$604,804
Investments of the cash management pool:		
Certificates of deposit	303,500	(303,500)
Cash on hand	<u>(75)</u>	<u>- - -</u>
GASB Statement No. 3	<u>\$1,240,851</u>	<u>\$301,304</u>

NOTE 5 - EXTERNAL INVESTMENT POOL

By statute, the ESC serves as fiscal agent for WOCO. The ESC pools the moneys of WOCO with the ESC's moneys for investment purposes. The ESC cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. WOCO is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. During fiscal year 1999, the investments of the pool were limited to a certificate of deposit and a money market account. WOCO's share of the investment portfolio is presented in a separate investment trust fund.

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

NOTE 5 - EXTERNAL INVESTMENT POOL (Continued)

The ESC also maintains stock that was bequested to the ESC and to the Sidney City School District. Each entity is entitled to fifty percent of the stocks value. The portion of the stock that is due to the Sidney City School District is reported as a separate investment trust fund. Condensed financial information for the external investment pools are presented on page 10.

NOTE 6 - RECEIVABLES

Receivables at June 30, 1999 consisted of accounts, accrued interest and amounts due from other governments. A summary of the receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Accounts	\$ 3,443
Accrued interest	1,180
Due from other governments	101,581
 <u>Special Revenue Fund</u>	
Due from other governments	13,923
Accounts	780
 <u>Nonexpendable Trust Fund</u>	
Due from other governments	10,981
 <u>Investment Trust Fund</u>	
Accrued interest	1,307

NOTE 7 - FIXED ASSETS

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

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 1999</u>
Furniture/ equipment	<u>\$128,082</u>	<u>\$38,808</u>	<u>\$(11,501)</u>	<u>\$155,389</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid.

	<u>Balance</u> <u>July 1, 1998</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 1999</u>
Compensated absences	\$78,548	\$37,186	\$(41,427)	\$74,307
Pension obligation payable	<u>6,987</u>	<u>4,568</u>	<u>(6,987)</u>	<u>4,568</u>
Total	<u>\$85,535</u>	<u>\$41,754</u>	<u>\$(48,414)</u>	<u>\$78,875</u>

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

NOTE 9 - RISK MANAGEMENT

A. Comprehensive and Employee Health Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. The ESC continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A). 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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute 14 percent for 1999; 7.7 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$98,211, \$77,902, and \$41,873, respectively; 100 percent has been contributed for fiscal years 1999, 1998 and 1997.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 6.0 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$143,471, \$132,471, and \$126,324, respectively; 100 percent has been contributed for fiscal years 1999, 1998 and 1997.

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, three members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$81,983 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

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

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. 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. Expenses for health care at June 30, 1998 (the latest information available), were \$111.901 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and SERS had approximately 50,000 participants currently receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$41,921 during the 1999 fiscal year.

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While the Education Service Center is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

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

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING (Continued)

**Excess of Revenues and Other Financing
Sources Over (Under) Expenditures and Other
Financing Uses**

Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>
Budget basis	\$ (34,837)	\$(75,096)
Net adjustment for revenue accruals	98,005	122,868
Net adjustment for expenditure accruals	59,819	(106,343)
Net adjustment for other financing sources (uses)	(4,660)	---
Net adjustment for fund reclassification	---	23,043
Encumbrances (budget basis)	<u>34,675</u>	<u>18,029</u>
GAAP basis	<u>\$153,002</u>	<u>\$(40,542)</u>

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 1999.

B. Litigation

The ESC is involved in no litigation as either plaintiff or defendant.

C. 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 this ESC. During the fiscal year ended June 30, 1999, the ESC received \$1,058,683 of total school foundation support.

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

NOTE 13 - CONTINGENCIES (Continued)

C. State School Funding Decision (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of June 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the ESC 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.

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1998

	Governmental Fund Types		Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Trust	General	General	
				Fixed Assets	Long-Term Obligations	
ASSETS AND OTHER DEBITS						
ASSETS:						
Equity in pooled cash and cash equivalents	\$228,910	\$154,739	\$371,470			\$755,119
Equity in pooled cash and cash equivalents - nonexpendable trust fund			5,586			5,586
Investments	162,090		424,194			586,284
Receivables (net of allowances of uncollectibles):						
Accounts	3,476					3,476
Accrued interest	4,742		4,035			8,777
Due from other governments	3,463		8,863			12,326
Prepayments	4,882	195				5,077
Materials and supplies inventory	5,195					5,195
Property, plant and equipment (net of accumulated depreciation where applicable)				\$128,082		128,082
OTHER DEBITS:						
Amount to be provided for retirement of general long-term obligations					\$85,535	85,535
Total assets and other debits	\$412,758	\$154,934	\$814,148	\$128,082	\$85,535	\$1,595,457
LIABILITIES, EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	\$1,287	\$18				\$1,305
Accrued wages and benefits	156,557	16,943				173,500
Compensated absences payable	23,036	2,164			\$78,548	103,748
Pension obligation payable					6,987	6,987
Total liabilities	180,880	19,125	0	0	85,535	285,540
EQUITY AND OTHER CREDITS:						
Investment in general fixed assets				\$128,082		128,082
Fund balances:						
Reserved for encumbrances	16,210	32,160				48,370
Reserved for external investment pool participants			654,158			654,158
Reserved for supplies inventory	5,195					5,195
Reserved for prepayments	4,882	195				5,077
Reserved for principal endowment			156,366			156,366
Unreserved-undesignated	205,591	103,454	3,624			312,669
Total equity and other credits	231,878	135,809	814,148	128,082		1,309,917
Total liabilities, equity and other credits	\$412,758	\$154,934	\$814,148	\$128,082	\$85,535	\$1,595,457

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

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

	Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Revenues:				
From local sources:				
Tuition	\$239,871			\$239,871
Earnings on investments	23,636		\$75	23,711
Other local revenues	99,540	\$7,000	2,550	109,090
Other revenue	14,363	79,140		93,503
Intergovernmental - State	1,386,996	124,972		1,511,968
Intergovernmental - Federal	25,203	238,900		264,103
Total revenue	1,789,609	450,012	2,625	2,242,246
Expenditures:				
Current:				
Instruction:				
Regular		100,944		100,944
Special	753,639	1,278		754,917
Support services:				
Pupil	314,766	11,760		326,526
Instructional staff	307,732	82,015		389,747
Board of Education	15,897			15,897
Administration	159,795	3,405		163,200
Fiscal	73,436	299		73,735
Business	12,535			12,535
Operations and maintenance	7,810	5		7,815
Pupil transportation	480			480
Central	139,453			139,453
Community services		819	2,550	3,369
Intergovernmental pass-through		182,558		182,558
Total expenditures	1,785,543	383,083	2,550	2,171,176
Excess (deficiency) of revenues over (under) expenditures	4,066	66,929	75	71,070
Other financing sources:				
Proceeds from sale of assets	160			160
Total other financing sources	160			160
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	4,226	66,929	75	71,230
Fund balances, July 1	227,603	68,880	3,549	300,032
Increase in reserve for inventory	49			49
Fund balances, June 30	\$231,878	\$135,809	\$3,624	\$371,311

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

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

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Tuition.....	\$240,128	\$239,871	(\$257)
Earnings on investments.....	23,425	23,449	24
Other local revenues.....	88,042	95,899	7,857
Other revenue	14,100	14,363	263
Intergovernmental - State.....	1,386,996	1,386,996	0
Intergovernmental - Federal.....	26,367	27,871	1,504
Total revenues.....	<u>1,779,058</u>	<u>1,788,449</u>	<u>9,391</u>
Expenditures:			
Current:			
Instruction:			
Regular.....	594	0	594
Special.....	785,874	715,667	70,207
Pupil.....	388,753	311,606	77,147
Instructional staff.....	398,142	292,556	105,586
Board of Education.....	39,533	19,991	19,542
Administration.....	195,114	155,198	39,916
Fiscal.....	80,129	71,887	8,242
Business.....	20,250	12,535	7,715
Operations and maintenance.....	18,127	8,465	9,662
Pupil transportation.....	1,062	480	582
Central.....	145,661	140,446	5,215
Community services.....			
Intergovernmental pass-through.....			
Total expenditures.....	<u>2,073,239</u>	<u>1,728,831</u>	<u>344,408</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(294,181)</u>	<u>59,618</u>	<u>353,799</u>
Other financing sources (uses):			
Refund of prior year's expenditures.....	30,809	30,869	60
Advances (out).....	(20,000)	0	20,000
Proceeds from sale of fixed assets.....	160	160	0
Total other financing sources (uses).....	<u>10,969</u>	<u>31,029</u>	<u>20,060</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses.....	<u>(283,212)</u>	<u>90,647</u>	<u>373,859</u>
Fund balances, July 1.....	275,252	275,252	0
Prior year encumbrances appropriated...	<u>7,960</u>	<u>7,960</u>	<u>0</u>
Fund balances, June 30.....	<u><u>\$0</u></u>	<u><u>\$373,859</u></u>	<u><u>\$373,859</u></u>

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

Special Revenue			Total (Memorandum only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$240,128	\$239,871	(\$257)
			23,425	23,449	24
\$7,000	\$7,000	\$0	95,042	102,899	7,857
			14,100	14,363	263
124,972	124,972	0	1,511,968	1,511,968	0
238,900	238,900	0	265,267	266,771	1,504
<u>370,872</u>	<u>370,872</u>	<u>0</u>	<u>2,149,930</u>	<u>2,159,321</u>	<u>9,391</u>
60,498	53,023	7,475	61,092	53,023	8,069
1,699	1,609	90	787,573	717,276	70,297
69,367	52,668	16,699	458,120	364,274	93,846
205,354	153,715	51,639	603,496	446,271	157,225
			39,533	19,991	19,542
7,422	6,546	876	202,536	161,744	40,792
3,177	2,454	723	83,306	74,341	8,965
600	0	600	20,850	12,535	8,315
			18,127	8,465	9,662
			1,062	480	582
			145,661	140,446	5,215
4,783	826	3,957	4,783	826	3,957
97,927	97,927	0	97,927	97,927	0
<u>450,827</u>	<u>368,768</u>	<u>82,059</u>	<u>2,524,066</u>	<u>2,097,599</u>	<u>426,467</u>
(79,955)	2,104	82,059	(374,136)	61,722	435,858
			30,809	30,869	60
			(20,000)	0	20,000
			160	160	0
			<u>10,969</u>	<u>31,029</u>	<u>20,060</u>
(79,955)	2,104	82,059	(363,167)	92,751	455,918
40,907	40,907	0	316,159	316,159	0
39,048	39,048	0	47,008	47,008	0
<u>\$0</u>	<u>\$82,059</u>	<u>\$82,059</u>	<u>\$0</u>	<u>\$455,918</u>	<u>\$455,918</u>

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1998

	Fiduciary Fund Type
	Nonexpendable Trust
Operating revenues:	
Investment earnings.	\$50,173
Total operating revenues.	50,173
Operating expenses:	
Other operating expenses	1,324
Total operating expenses	1,324
Operating income	48,849
Fund balance at July 1 (restated)	107,517
Fund balance at June 30	\$156,366

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

STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1998

	Fiduciary Fund Type
	Nonexpendable Trust
Cash flows from operating activities:	
Cash payments for other expenses	(\$1,324)
Net cash used in operating activities	(1,324)
Cash flows from investing activities:	
Interest received	2,489
Net cash provided by investing activities	2,489
Net increase in cash and cash equivalents.	1,165
Cash and cash equivalents at beginning of year . . .	4,421
Cash and cash equivalents at end of year	\$5,586
Reconciliation of operating income to net cash used in operating activities:	
Operating income.	\$48,849
Adjustments to reconcile operating income to net cash used in operating activities:	
Interest reported as operating income	(50,173)
Net cash used in operating activities	(\$1,324)

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

STATEMENT OF NET ASSETS
 INVESTMENT TRUST FUND
 JUNE 30, 1998

	Fiduciary Fund Type
	Investment Trust
Assets:	
Investments	\$279,827
Cash equivalents	290,090
Cash.	80,206
Accrued interest receivable.	4,035
Total assets	\$654,158
 Net assets available to participants	 \$654,158

STATEMENT OF CHANGES IN NET ASSETS
 INVESTMENT TRUST FUND
 JUNE 30, 1998

Operations:	
Net Investment Income	\$76,680
Capital Transactions:	
Proceeds of Investments sold	(140,851)
Purchase of Investments	137,910
Purchase of cash equivalents.	133,653
Increase from Capital Transactions	130,712
 Total increase in net assets	 207,392
 Net assets at July 1, 1998	 446,766
Net assets at June 30, 1999	\$654,158

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Shelby County Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of ESCs and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center". The ESC is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 29 non-certificated employees and 31 certificated employees to provide services to approximately 4,939 students in seven local districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the ESC 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 ESC 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 ESC's significant accounting policies are described below.

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity." The financial statements include all funds, account groups, agencies, boards, commissions, and component units for which the ESC is "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC and whether exclusion would cause the ESC's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependence and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Based upon the application of these, the ESC has no component units. The following organizations are described due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATION

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 29 member school districts. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members school districts. The degree of control exercised

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the ESC does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the ESC's financial statements but the funds held on behalf of WOCO by the ESC is included as an investment trust fund.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP is a group rating plan for worker's compensation as established under section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund.

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund, a nonexpendable trust fund and an investment trust fund. The nonexpendable trust fund and investment trust fund are accounted for on the accrual basis of accounting. The expendable trust fund is accounted for in the same manner as governmental funds. A separate Statement of Net Assets and Statement of Changes in Net Assets is presented for the investment trust funds on page 34.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. 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 group of accounts is established to account for all fixed assets of the ESC.

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

C. Measurement Focus/Basis of Accounting

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

The nonexpendable trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund is included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is sixty days after the June 30 year end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The nonexpendable trust fund and investment trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Budgets

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets (Continued)

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

Estimated Resources:

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

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriations measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any funds appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the ESC during fiscal 1999 in the following amounts:

	Increase	Decrease
General Fund	\$ - - -	\$(28,959)
Special Revenue Funds	155,184	- - -
Expendable Trust Fund	- - -	(965)
Nonexpendable Trust Fund	475	- - -

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 STATEMENT
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the combined balance sheet.

During 1998, investments were limited to nonnegotiable certificates of deposit, common stock (see below) and a money market account. Investments are reported at fair value, which is based on quoted market prices. Investments in non-participating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

While common stock is not an allowable investment according to Ohio Statute, the ESC has been endowed with a gift of stock to its nonexpendable trust fund, a portion of this stock is due to Sidney City School District. The portion due to Sidney City School District is reported as an investment trust fund (See Note 5). No public funds were used to acquire the stock.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The following funds were credited with more interest revenue than would have been received based upon their share of the ESC's investments:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Investments</u>	<u>Interest Assigned By Other Funds</u>
General Fund	\$ 23,636	\$ 8,628	\$ 15,008

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

An analysis of the Treasurer's investment account at year end is provided in Note 4.

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

G. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$250 and a useful life of less than one year. No depreciation is recognized for assets in the general fixed assets account group. The ESC does not possess any infrastructure.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Intergovernmental Revenues

In government funds, entitlements and non-reimbursable grants (similar to entitlements and shared revenues) are recorded as receivables and revenue when measurable and available (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue
Management Information Systems
Training Ohio's Parents for Success
Eisenhower
Professional Development Block Grant
SchoolNet Professional Development
Title VI-B
Pre-School
Alternative School Grant

Grants and entitlements amounted to 77% of the ESC's operating revenue during the 1998 fiscal year.

I. Compensated Absences

Compensated absences of the ESC consist of vacation leave (including compensatory time) and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave (including compensatory time) is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation (including compensatory time) and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Compensated Absences (Continued)

Accumulated vacation (including compensatory time) and severance liabilities of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

J. Long-Term Obligations

For long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, amounts available for external investment pool participants, prepaid assets and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

L. Interfund Transactions

During the course of normal operations, the ESC may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The ESC made no operating transfers during fiscal year 1998.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had no short-term interfund loans receivable or payable at June 30, 1998.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 1998.

M. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Estimates

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

O. Memorandum Only - Total Columns

Total columns on the GPFS 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 changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

For fiscal year 1998, the ESC has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value.

The implementation of GASB Statement No. 31 had the following effect on fund balance as it was previously reported as of June 30, 1997:

	<u>Nonexpendable Trust</u>	<u>Investment Trust</u>
Fund balance as previously reported	\$ 27,148	\$ 0
Restatement for GASB Statement No. 31 implementation	<u>80,370</u>	<u>446,766</u>
Restated fund balance as of July 1, 1997	<u>\$ 107,518</u>	<u>\$ 446,766</u>

B. Prior Period Adjustment

The beginning balances of the general fixed assets account group and the general long-term obligations account group have been restated to remove an item previously recorded as a capital lease but since determined to be an operating lease. At July 1, 1997, the balance in the general long-term obligations account group was restated from \$82,878 to \$76,565 and the balance in the general fixed assets account group was restated from \$130,425 to \$108,171.

C. Deficit Fund Balances

Fund balance at June 30, 1998 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Management Information System	\$ (5)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

C. Deficit Fund Balances (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end. The deficit in the Management Information System special revenue fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages attributable to the fiscal year. This deficit will be eliminated as revenues become available to cover these costs as they are incurred.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". State statutes require the classification of monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Interim monies may be deposited 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 Treasury Asset Reserve of Ohio (STAROhio);
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 monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments 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 ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year end, the ESC had \$75 in undeposited cash on hand which is included on the combined balance sheet of the ESC 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 and Reverse Repurchase Agreements."

Deposits: At year end, the carrying amount of the ESC's deposits was \$1,063,080 and the bank balance was \$1,093,070. These balances include \$302,450 in nonnegotiable certificates of deposit and \$631,043 in a money market account. Of the bank balance:

1. \$313,623 was covered by federal depository insurance or by collateral held by the ESC in the ESC's name.
2. \$779,447 was uninsured and unregistered because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments: The ESC's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name.

	Category 1	Reported Amount	Fair Value
Stock	\$ 283,834	\$ 283,834	\$ 283,834
Total investments	\$ 283,834	\$ 283,834	\$ 283,834

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet (Per GASB Statement No.9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 760,705	\$ 586,284
Investments of the cash management pool:		
Certificates of deposit	302,450	(302,450)
Cash on hand	(75)	---
GASB Statement No. 3	\$ 1,063,080	\$ 283,834

NOTE 5 - EXTERNAL INVESTMENT POOL

By statute, the ESC serves as fiscal agent for WOCO. The ESC pools the moneys of WOCO with the ESC's moneys for investment purposes. The ESC cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. WOCO is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. During fiscal year 1998, the investments of the pool were limited to a certificate of deposit and a money market account. WOCO's share of the investment portfolio is presented in a separate investment trust fund.

The ESC also maintains stock that was bequested to the ESC and to the Sidney City School District. Each entity is entitle to fifty percent of the stocks value. The portion of the stock that is due to the Sidney City School District is reported as a separate investment trust fund. Condensed financial information for the investment pool is presented on page 34.

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 1998 consisted of accounts, accrued interest and amounts due from other governments. A summary of the receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Accounts	\$ 3,476
Accrued interest	4,742
Due from other governments	3,463
 <u>Nonexpendable Trust Fund</u>	
Due from other governments	8,863
 <u>Investment Trust Fund</u>	
Accrued interest	4,035

NOTE 7 - FIXED ASSETS

The balance in the general fixed assets account group has been restated due to an error in the reporting of a certain capital asset (See Note 3.B.). The restated balance is as follows:

	<u>Balance</u> <u>June 30, 1996</u>	<u>Correction</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 1997</u>
Furniture/equipment	<u>\$130,425</u>	<u>\$(22,254)</u>	<u>\$108,171</u>

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

	<u>Restated</u> <u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture/ equipment	<u>\$108,171</u>	<u>\$25,780</u>	<u>\$(5,869)</u>	<u>\$128,082</u>

NOTE 8 - LONG-TERM OBLIGATIONS

The balance in the general long-term obligations account group has been restated due to an error in the reporting of a capital lease (See Note 3.B.). During the year ended June 30, 1998, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences will be presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid.

	<u>Restated</u> <u>Balance</u> <u>July 1, 1997</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 1998</u>
Compensated absences	\$ 68,977	\$ 9,571	\$ - - -	\$ 78,548
Pension obligation payable	<u>7,588</u>	<u>6,987</u>	<u>(7,588)</u>	<u>6,987</u>
Total	<u>\$ 76,565</u>	<u>\$16,558</u>	<u>\$(7,588)</u>	<u>\$ 85,535</u>

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

NOTE 9 - RISK MANAGEMENT

A. Comprehensive and Employee Health Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. The ESC continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A). 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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute 14 percent for 1998; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$77,902, \$41,873, and \$29,867, respectively; 100 percent has been contributed for fiscal years 1998, 1997 and 1996.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$132,471, \$126,324, and \$107,045, respectively; 100 percent has been contributed for fiscal years 1998, 1997 and 1996.

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, four members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the ESC, this amount equaled \$33,118 during fiscal 1998.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998. For the year ended June 30, 1998, net health care costs paid by STRS were \$219.224 million 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, and 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 STATEMENT
JUNE 30, 1998
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, were \$111.901 million 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. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$31,014 during the 1998 fiscal year.

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While the Education Service Center is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	
	<u>General</u>	<u>Special Revenue</u>
Budget basis	\$ 90,647	\$ 2,104
Net adjustment for revenue accruals	1,160	79,140
Net adjustment for expenditure accruals	(73,854)	(46,475)
Net adjustment for other financing sources (uses)	(30,869)	---
Net adjustment for fund reclassification	---	---
Encumbrances (budget basis)	<u>17,142</u>	<u>32,160</u>
GAAP basis	<u>\$ 4,226</u>	<u>\$66,929</u>

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

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 1998.

B. Litigation

The ESC is involved in no litigation as either plaintiff or defendant.

C. 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 this ESC. During the fiscal year ended June 30, 1998, the ESC received \$1,386,996 of total school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1998, 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 June 30, 1998, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the ESC 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.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Shelby County Educational Service Center
129 E Court St., 4th Floor
Sidney, Ohio 45365

Governing Board:

We have audited the general purpose financial statements of the Shelby County Educational Service Center, Shelby County (the "ESC"), as of and for the years ended June 30, 1999 and June 30, 1998, and have issued our report thereon dated January 19, 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 the ESC'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls 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 general purpose 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 controls over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the ESC in a separate letter dated January 19, 2000.

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

JIM PETRO
Auditor of State

January 19, 2000



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OFFICE OF THE AUDITOR

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EDUCATIONAL SERVICE CENTER

SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 4, 2000**