



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Miami County
215 West Main Street
Troy, Ohio 45373

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2000 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

January 3, 2000

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

	<u>Governmental Fund Types</u>		<u>Accounts Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits					
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$1,741,614	\$61,294	\$0	\$0	\$1,802,908
Receivables:					
Accounts	206,617	0	0	0	206,617
Intergovernmental	15,657	2,100	0	0	17,757
Interfund	18,730	0	0	0	18,730
Prepaid Items	1,420	0	0	0	1,420
Materials and Supplies Inventory	7,475	0	0	0	7,475
Fixed Assets	0	0	149,776	0	149,776
Other Debits:					
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	131,033	131,033
Total Assets and Other Debits	<u>\$1,991,513</u>	<u>\$63,394</u>	<u>\$149,776</u>	<u>\$131,033</u>	<u>\$2,335,716</u>
Liabilities, Fund Equity and Other Credits					
Liabilities:					
Accounts Payable	3,517	52	0	0	3,569
Accrued Wages and Benefits Payable	449,986	2,334	0	0	452,320
Intergovernmental Payable	386,327	2,648	0	39,936	428,911
Interfund Payable	0	18,730	0	0	18,730
Deferred Revenue	148,219	0	0	0	148,219
Compensated Absences Payable	2,188	0	0	91,097	93,285
Total Liabilities	<u>\$990,237</u>	<u>\$23,764</u>	<u>\$0</u>	<u>\$131,033</u>	<u>\$1,145,034</u>
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	149,776	0	149,776
Fund Balance:					
Reserved for Encumbrances	6,050	1,607	0	0	7,657
Reserved for Materials and Supplies Inventory	7,475	0	0	0	7,475
Unreserved, Undesignated	987,751	38,023	0	0	1,025,774
Total Fund Equity and Other Credits	<u>\$1,001,276</u>	<u>\$39,630</u>	<u>\$149,776</u>	<u>\$0</u>	<u>\$1,190,682</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,991,513</u>	<u>\$63,394</u>	<u>\$149,776</u>	<u>\$131,033</u>	<u>\$2,335,716</u>

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

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

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Tuition and Fees	\$12,633	\$0	\$12,633
Interest	84,643	0	84,643
Intergovernmental	1,530,114	313,999	1,844,113
Charges for Services	3,210,683	28,132	3,238,815
Extracurricular	0	315	315
Gifts and Donations	2,600	4,508	7,108
Miscellaneous	3,881	3,151	7,032
Total Revenues	<u>4,844,554</u>	<u>350,105</u>	<u>5,194,659</u>
Expenditures:			
Current:			
Instruction:			
Regular	225,010	0	225,010
Special	2,446,605	29,359	2,475,964
Support Services:			
Pupils	813,389	1,030	814,419
Instructional Staff	576,973	40,762	617,735
Board of Education	14,424	0	14,424
Administration	583,281	1,222	584,503
Fiscal	76,967	4,898	81,865
Pupil Transportation	1,000	0	1,000
Central	42,158	2,994	45,152
Extracurricular	0	301	301
Non-Instructional Services	1,230	73,552	74,782
Intergovernmental	0	213,359	213,359
Total Expenditures	<u>4,781,037</u>	<u>367,477</u>	<u>5,148,514</u>
Excess of Revenues Over (Under) Expenditures	63,517	(17,372)	46,145
Fund Balances at Beginning of Year	934,073	57,002	991,075
Increase in Reserve for Inventory	3,686	0	3,686
Fund Balances at End of Year	<u>\$1,001,276</u>	<u>\$39,630</u>	<u>\$1,040,906</u>

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

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	\$12,633	\$12,633	\$0	\$0	\$0	\$0
Interest	84,640	84,640	0	0	0	0
Intergovernmental	1,514,457	1,514,457	0	314,510	314,510	0
Charges for Services	3,613,412	3,613,412	0	31,861	31,861	0
Extracurricular	0	0	0	315	315	0
Gifts and Donations	2,600	2,600	0	4,508	4,508	0
Miscellaneous	2,793	2,793	0	3,151	3,151	0
Total Revenues	<u>5,230,535</u>	<u>5,230,535</u>	<u>0</u>	<u>354,345</u>	<u>354,345</u>	<u>0</u>
Expenditures:						
Current:						
Instruction:						
Regular	244,734	244,734	0	18,677	18,677	0
Special	2,560,656	2,560,656	0	32,905	32,905	0
Adult/Continuing	0	0	0	83	83	0
Support Services:						
Pupils	851,894	851,894	0	1,030	1,030	0
Instructional Staff	631,451	631,451	0	99,951	99,951	0
Board of Education	14,402	14,402	0	0	0	0
Administration	565,292	565,292	0	1,222	1,222	0
Fiscal	75,913	75,913	0	4,898	4,898	0
Pupil Transportation	1,012	1,012	0	0	0	0
Central	40,817	40,817	0	2,994	2,994	0
Extracurricular	0	0	0	301	301	0
Non-Instructional Services	1,630	1,630	0	74,591	74,591	0
Intergovernmental	0	0	0	141,108	141,108	0
Total Expenditures	<u>4,987,801</u>	<u>4,987,801</u>	<u>0</u>	<u>377,760</u>	<u>377,760</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>242,734</u>	<u>242,734</u>	<u>0</u>	<u>(23,415)</u>	<u>(23,415)</u>	<u>0</u>
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	1,088	1,088	0	100	100	0
Refund of Prior Year Receipts	0	0	0	(65)	(65)	0
Advances - In	10,000	10,000	0	18,730	18,730	0
Advances - Out	(18,730)	(18,730)	0	(10,000)	(10,000)	0
Total Other Financing Sources (Uses)	<u>(7,642)</u>	<u>(7,642)</u>	<u>0</u>	<u>8,765</u>	<u>8,765</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>235,092</u>	<u>235,092</u>	<u>0</u>	<u>(14,650)</u>	<u>(14,650)</u>	<u>0</u>
Fund Balances at Beginning of Year	775,604	775,604	0	52,821	52,821	0
Prior Year Encumbrances Appropriated	370,798	370,798	0	14,306	14,306	0
Fund Balances at End of Year	<u><u>\$1,381,494</u></u>	<u><u>\$1,381,494</u></u>	<u><u>\$0</u></u>	<u><u>\$52,477</u></u>	<u><u>\$52,477</u></u>	<u><u>\$0</u></u>

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Miami County Educational Service Center (the "Educational Service Center") is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East and Newton Local School Districts, the Bradford, Covington, Milton Union and Tipp City Exempted Village School Districts, and Piqua and Troy City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Miami County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 87 support staff employees and 102 certified teaching personnel that provide services to the local, exempted village and city school districts.

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

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

The following entities which perform activities within the Educational Service Center boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

City of Troy - The city government of Troy is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional city services. Council acts as the taxing/budgeting authority for these services.

Parent Teacher Association - The Educational Service Center is not involved in the budgeting, management, responsible for any debt, and has no influence over the organization.

The Educational Service Center is associated with four jointly governed organizations: the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, and the Miami Valley Career Technology Center. The Educational Services Center is also associated with an insurance purchasing pool, the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are discussed in Note 15 to the general purpose financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Account Groups

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

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

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

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

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

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. 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 Educational Service Center the amount from part (B) that is to be apportioned to their district. Prior to year-end, the Educational Service Center approved estimated receipts to match actual revenues.

Appropriations

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. Prior to year end, the Educational Service Center passed appropriations to match expenditures plus encumbrances.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$84,643, which includes \$8,636 assigned from other funds.

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

E. Inventory

Inventories of governmental funds are stated at cost on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Prepaid Items

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

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Assets of the Educational Service Center are not depreciated.

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

Entitlements

General Fund

Community Alternative Funding System Program Reimbursement
State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Local Professional Development
Early Intervention
Education Management Information Systems
Preschool
Career Development
Early Childhood
Title I
Eisenhower
Preschool Disabilities Grant
Special Education Transition Funding

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school districts in the county are reported in an agency fund. Grants and entitlements received in governmental funds amounted to 36 percent of governmental fund revenue during the 1999 fiscal year.

I. Interfund Assets/Liabilities

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

J. Compensated Absences

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

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

K. Accrued Liabilities and Long-Term Obligations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Fund Balance Reserves

The Educational Service Center reserves fund balance for amounts that are legally segregated for a specific purpose or which are not available for appropriation. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and materials and supplies inventory.

O. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

At June 30, 1999, the Early Intervention Special Revenue Fund had a deficit fund balance of \$2,652 which was created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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

4. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
GAAP Basis	\$63,517	(\$17,372)
Revenue Accruals	387,069	4,340
Expenditure Accruals	153,342	(1,531)
Encumbrances	(360,040)	(8,817)
Prepaid Items	(66)	0
Advances	(8,730)	8,730
Budget Basis	\$235,092	(\$14,650)

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

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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

5. DEPOSITS AND INVESTMENTS (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits - At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$206,529) and the bank balance was \$109,894. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$9,894 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center held to a successful claim by the Federal Deposit Insurance Corporation.

Investments - The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The market value of STAR Ohio at June 30, 1999, were \$2,009,437.

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, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

5. DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$1,802,908	\$0
Investments:		
STAR Ohio	(2,009,437)	2,009,437
GASB Statement 3	(\$206,529)	\$2,009,437

6. STATE FUNDING

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

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

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

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program" which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$1,457,106 in school foundation basic allowance support for its General Fund.

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

6. STATE FUNDING (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. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has not been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws the Common Pleas Court declared unconstitutional.

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

7. RECEIVABLES

Receivables at June 30, 1999, consisted of accounts (charges for services), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

8. FIXED ASSETS

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

Asset Category	Balance at 6/30/98	Additions	Deletions	Balance at 6/30/99
Furniture and Equipment	\$117,952	\$31,824	\$0	\$149,776

There was no construction in progress at June 30, 1999.

9. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted with Nationwide Insurance for general liability insurance. Property is protected by Wausau Insurance. Coverages provided by Nationwide Insurance and Wausau Insurance are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$84,300
Computer Hardware (\$500 deductible)	77,639
Automobile	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	1,000,000

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

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

9. RISK MANAGEMENT

B. Workers' Compensation

For fiscal year 1999, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Incorporated provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent was the portion to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$67,610, \$52,590 and \$73,259, respectively; 100 percent has been contributed for fiscal year 1999, 1998 and 1997.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

10. DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$154,754, \$233,642 and \$240,102, respectively; 0 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$154,754 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

11. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$206,339 for fiscal year 1999.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$95,253.

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

11. POSTEMPLOYMENT BENEFITS (continued)

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 \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided through EPC Benefit Plan Trust, while dental benefits are provided through EPC Dental Benefit Plan Trust.

13. LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/98	Additions	Deletions	Amount Outstanding 6/30/99
Intergovernmental Payable	\$40,567	\$39,936	\$40,567	\$39,936
Compensated Absences	79,855	11,242	0	91,097
Total General Long-Term Obligations	\$120,422	\$51,178	\$40,567	\$131,033

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

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

14. INTERFUND ACTIVITY

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

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$18,730	\$0
Special Revenue Fund:		
Early Intervention	0	18,730
Total All Funds	\$18,730	\$18,730

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment for administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The amount paid to MDECA during fiscal year 1999 was \$500. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the Fiscal Agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 1999, the Educational Service Center paid \$13,861 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (continued)

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. During fiscal year 1999, \$1,342 in financial contributions were made to the Upper Valley Joint Vocational School. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. No financial contributions were made to the Miami Valley Technology Center during fiscal year 1999. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

B. Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the 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.

16. YEAR 2000 COMPLIANCE

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

Miami County Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting the Educational Service Center operations. The Educational Service Center uses the Ohio Education Computer Network (OECN) State Software for their budgetary, payroll, fixed asset inventory and education management information system (EMIS) accounting services. These services are provided by the Metropolitan Dayton Educational Cooperative Association (MDECA - see Note 15). The State is responsible for remediating these systems and is solely responsible for any costs associated with the process.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with the Foundation processing and EMIS systems.

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

16. YEAR 2000 COMPLIANCE (continued)

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

17. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1999.

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

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$1,146,479	\$67,128	\$0	\$0	\$1,213,607
Receivables:					
Accounts	581,718	3,664	0	0	585,382
Intergovernmental	0	2,611	0	0	2,611
Interfund	10,000	0	0	0	10,000
Prepaid Items	1,486	0	0	0	1,486
Materials and Supplies Inventory	3,789	0	0	0	3,789
Fixed Assets	0	0	117,952	0	117,952
Other Debits:					
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0	95,695	95,695
Total Assets and Other Debits	\$1,743,472	\$73,403	\$117,952	\$95,695	\$2,030,522
Liabilities, Fund Equity and Other Credits					
Liabilities:					
Accounts Payable	\$5,640	\$595	\$0	\$0	\$6,235
Accrued Wages and Benefits Payable	352,083	3,883	0	0	355,966
Intergovernmental Payable	328,345	1,923	0	40,567	370,835
Interfund Payable	0	10,000	0	0	10,000
Deferred Revenue	120,591	0	0	0	120,591
Compensated Absences Payable	2,740	0	0	55,128	57,868
Total Liabilities	\$809,399	\$16,401	\$0	\$95,695	\$921,495
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	117,952	0	117,952
Fund Balance:					
Reserved for Encumbrances	46,960	12,979	0	0	59,939
Reserved for Inventory	3,789	0	0	0	3,789
Unreserved, Undesignated	883,324	44,023	0	0	927,347
Total Fund Equity and Other Credits	\$934,073	\$57,002	\$117,952	\$0	\$1,109,027
Total Liabilities, Fund Equity and Other Credits	\$1,743,472	\$73,403	\$117,952	\$95,695	\$2,030,522

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

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

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Tuition and Fees	\$6,265	\$0	\$6,265
Interest	67,405	0	67,405
Intergovernmental	2,678,406	196,276	2,874,682
Charges for Services	1,705,774	57,581	1,763,355
Extracurricular	0	169	169
Miscellaneous	2,139	7,671	9,810
Total Revenues	<u>\$4,459,989</u>	<u>\$261,697</u>	<u>\$4,721,686</u>
Expenditures:			
Current:			
Instruction:			
Regular	309,872	64	309,936
Special	2,274,341	23,717	2,298,058
Adult/Continuing	0	30	30
Support Services:			
Pupils	770,177	19,843	790,020
Instructional Staff	523,769	59,788	583,557
Board of Education	9,852	0	9,852
Administration	358,730	1,288	360,018
Fiscal	74,177	5,052	79,229
Pupil Transportation	1,961	0	1,961
Central	19,645	2,103	21,748
Extracurricular	0	143	143
Non-Instructional Services	1,240	55,629	56,869
Intergovernmental	0	103,606	103,606
Total Expenditures	<u>\$4,343,764</u>	<u>\$271,263</u>	<u>\$4,615,027</u>
Excess of Revenues Over (Under) Expenditures	116,225	(9,566)	106,659
Fund Balances at Beginning of Year	816,850	66,568	883,418
Increase in Reserve for Inventory	998	0	998
Fund Balances at End of Year	<u>\$934,073</u>	<u>\$57,002</u>	<u>\$991,075</u>

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

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	6,265	6,265	0	0	0	0
Interest	67,395	67,395	0	0	0	0
Intergovernmental	2,679,543	2,679,543	0	195,672	195,672	0
Charges for Services	1,429,064	1,429,064	0	54,217	54,217	0
Extracurricular	0	0	0	169	169	0
Miscellaneous	3,528	3,528	0	7,671	7,671	0
Total Revenues	4,185,795	4,185,795	0	257,729	257,729	0
Expenditures:						
Current:						
Instruction:						
Regular	313,498	313,498	0	15,412	15,412	0
Special	2,385,870	2,385,870	0	21,168	21,168	0
Adult/Continuing	0	0	0	12,303	12,303	0
Support Services:						
Pupils	822,713	822,713	0	20,902	20,902	0
Instructional Staff	547,159	547,159	0	152,342	152,342	0
Board of Education	9,721	9,721	0	0	0	0
Administration	373,772	373,772	0	1,288	1,288	0
Fiscal	77,725	77,725	0	7,846	7,846	0
Pupil Transportation	1,403	1,403	0	0	0	0
Central	15,918	15,918	0	2,103	2,103	0
Extracurricular	0	0	0	143	143	0
Non-Instructional Services	1,240	1,240	0	54,411	54,411	0
Total Expenditures	4,549,019	4,549,019	0	287,918	287,918	0
Excess of Revenues						
Under Expenditures	(363,224)	(363,224)	0	(30,189)	(30,189)	0
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	15,124	15,124	0	144	144	0
Refund of Prior Year Receipts	(776)	(776)	0	(419)	(419)	0
Advances - In	13,925	13,925	0	10,000	10,000	0
Advances - Out	(10,000)	(10,000)	0	(13,925)	(13,925)	0
Total Other Financing Sources (Uses)	18,273	18,273	0	(4,200)	(4,200)	0
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(344,951)	(344,951)	0	(34,389)	(34,389)	0
Fund Balances at Beginning of Year	824,016	824,016	0	74,827	74,827	0
Prior Year Encumbrances Appropriated	296,539	296,539	0	12,384	12,384	0
Fund Balances at End of Year	775,604	775,604	0	52,822	52,822	0

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Miami County Educational Service Center (the "Educational Service Center") is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East and Newton Local School Districts, the Bradford, Covington, Milton Union and Tipp City Exempted Village School Districts, and Piqua and Troy City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Miami County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 71 support staff employees and 82 certified teaching personnel that provide services to the local, exempted village and city school districts.

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

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

The following entities which perform activities within the Educational Service Center boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

City of Troy - The city government of Troy is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

Parent Teacher Association - The Educational Service Center is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The Educational Service Center is associated with four jointly governed organizations: the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Cooperative, the Upper Valley Joint Vocational School, and the Miami Valley Career Technology Center. The Educational Services Center is also associated with one public entity risk pool, the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan. These organizations are discussed in Note 16 to the general purpose financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types

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

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

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

Account Groups

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

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

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

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

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

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

C. Budgetary Process

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Appropriations

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. Before closing at year end, the Educational Service Center passed appropriations to match expenditures plus encumbrances.

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 year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to \$67,405, which includes \$6,350 assigned from other funds.

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

E. Inventory

Inventories of governmental funds are stated at cost on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Prepaid Items

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

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

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

Entitlements

General Fund

Community Alternative Funding System Program Reimbursement
State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Local Professional Development
Early Intervention
Education Management Information Systems
Preschool
Entry Year Program
Title III
Career Development
Early Childhood
Title I
Eisenhower
Preschool Disabilities Grant

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school districts in the county are reported in an agency fund. Grants and entitlements received in governmental funds amounted to 61 percent of governmental fund revenue during the 1998 fiscal year.

I. Interfund Assets/Liabilities

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

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Fund Balance Reserves

The Educational Service Center reserves fund balance for amounts that are legally segregated for a specific purpose or which are not available for appropriation. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and inventory.

O. Total Columns on General Purpose Financial Statements

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1998, the Educational Service Center 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 required to be reported at fair value. The implementation of this statement required no change in the Educational Service Center's financial statements from prior years.

The Educational Service Center has also implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the County Commissioner's Association of Ohio. On September 1, 1997, the County Commissioner's Association of Ohio created a trust for the assets of the plan for which the Educational Service Center has no fiduciary responsibility. Therefore, plan assets are no longer presented on the balance sheet.

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

4. ACCOUNTABILITY

At June 30, 1998, the Early Intervention Special Revenue Fund had a deficit fund balance of \$2,494 which was created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
4. Advances in and out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
GAAP Basis	\$116,225	(\$9,566)
Revenue Accruals	(259,070)	(3,824)
Expenditure Accruals	165,152	(2,768)
Encumbrances	(370,798)	(14,306)
Prepaid Items	(385)	0
Advances	3,925	(3,925)
Budget Basis	(\$344,951)	(\$34,389)

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

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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;

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

6. DEPOSITS AND INVESTMENTS (continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits - At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$124,825) and the bank balance was \$227,249. Of the bank balance:

\$100,000 was covered by federal depository insurance; and

\$127,249 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center held to a successful claim by the FDIC.

Investments - The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and market value of STAR Ohio at June 30, 1998, were \$1,338,432.

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, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

6. DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$1,213,607	\$0
Investments:		
STAR Ohio	(1,338,432)	1,338,432
GASB Statement 3	(\$124,825)	\$1,338,432

7. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$29. This amount is provided from State resources.

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

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program" which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1998, the Educational Service Center received \$2,629,216 in basic school foundation support for its general fund.

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

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

7. STATE FUNDING (continued)

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

8. RECEIVABLES

Receivables at June 30, 1998, consisted of accounts (charges for services), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

9. FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at 6/30/97</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/98</u>
Furniture and Equipment	\$85,429	\$42,473	\$9,950	\$117,952

There was no construction in progress at June 30, 1998.

10. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1998, the Educational Service Center contracted with Nationwide Insurance for general liability insurance. Property is protected by Wausau Insurance. Coverages provided by Nationwide Insurance and Wausau Insurance are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$129,844
Automobile	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	1,000,000

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

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

10. RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 1998, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Accordia of Ohio provides administrative, cost control, and actuarial services to the GRP.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998, 9.02 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$62,590, \$73,259 and \$60,609, respectively; 70.80 percent has been contributed for fiscal year 1998 and 100 percent for the fiscal years 1997 and 1996. \$28,368 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the general long-term obligations account group.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system 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. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

11. DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$233,642, \$240,102 and \$210,101, respectively; 10.97 percent has been contributed for fiscal year 1998 and 100 percent for the fiscal years 1997 and 1996. \$233,510 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds.

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the Educational Service Center, this amount equaled \$77,881 during the 1998 fiscal year.

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

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

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$75,039 during the 1998 fiscal year.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1997, were \$97,429,197 and the target level was \$121.8 million. At June 30, 1997, SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits.

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

13. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided through EPC Benefit Plan Trust, while dental benefits are provided through EPC Dental Benefit Plan Trust.

14. LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/97	Additions	Deletions	Principal Outstanding 6/30/98
Intergovernmental Payable	\$28,808	\$40,567	\$28,808	\$40,567
Compensated Absences	8,641	46,487	0	55,128
Total General Long-Term Obligations	\$37,449	\$87,054	\$28,808	\$95,695

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

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

15. INTERFUND ACTIVITY

As of June 30, 1998, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivables	Interfund Payables
General Fund	\$10,000	\$0
Special Revenue Fund:		
Early Intervention	0	10,000
Total All Funds	\$10,000	\$10,000

16. JOINTLY GOVERNED ORGANIZATIONS AND PUBLIC ENTITY RISK POOL

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment for administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Cooperative -The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the Fiscal Agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 1998, the Educational Service Center paid \$300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

16. JOINTLY GOVERNED ORGANIZATIONS AND PUBLIC ENTITY RISK POOL (continued)

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

B. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the 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 Educational Service Center paid \$731 to the GRP to participate in the program.

17. YEAR 2000 COMPLIANCE

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

Miami County Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting the Educational Service Center operations. The Educational Service Center uses the Ohio Education Computer Network (OECN) State Software for their budgetary, payroll, fixed asset inventory and education management information system (EMIS) accounting services. These services are provided by the Metropolitan Dayton Educational Cooperative Association (MDECA - see Note 16).

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

17. YEAR 2000 COMPLIANCE (continued)

According to the vendor, "the payroll processing software supported with the OECN State Software is compliant with the Year 2000." "The accounting software supported with the OECN State Software is compliant with the Year 2000." "The education management information system software supported with the OECN State Software is compliant with the Year 2000." "The equipment inventory and vehicle inventory system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the March 1999 release of SAAS V2.1."

No cost will be imposed to the Educational Service Center as a result of the program modifications.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with the Foundation processing and EMIS systems.

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

18. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1998.

B. Litigation

The Educational Service Center is party to legal proceedings. The Educational Service Center is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

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STATE OF OHIO
OFFICE OF THE AUDITOR

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

Educational Service Center
Miami County
215 West Main Street
Troy, Ohio 45373

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Miami County, (the Educational Service Center) as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated January 3, 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 Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated January 3, 2000.

Educational Service Center
Miami County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*

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

Jim Petro
Auditor of State

January 3, 2000



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OFFICE OF THE AUDITOR

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MIAMI COUNTY EDUCATIONAL SERVICE CENTER

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2000**