



**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



**JIM PETRO
AUDITOR OF STATE**

STATE OF OHIO

TABLE OF CONTENTS

TITLE

Report of Independent Accountants 1

Combined Balance Sheet – All Fund Types and
Account Groups – At June 30, 1999 3

Combined Statement of Revenues, Expenditures and Changes in
Fund Balances – All Governmental Fund Types –
For the Fiscal Year Ended June 30, 1999 4

Combined Statement of Revenues, Expenditures and Changes in
Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual –
All Governmental Fund Types –
For the Fiscal Year Ended June 30, 1999 6

Notes to the General Purpose Financial Statements 9

Schedule of Federal Awards Expenditures 29

Notes to the Schedule of Federal Awards Expenditures 30

Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards* 31

Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133 33

Schedule of Findings 35

Corrective Action Plan 37

This Page Intentionally Left Blank



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Educational Service Center, Darke County, (the "Educational Service Center") as of and for the year ended June 30, 1999, 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 the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2000 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

JIM PETRO
Auditor of State

January 5, 2000

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

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
	Assets and Other Debits						
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$420,434	\$378,281	\$172,400	\$17,800	\$0	\$0	\$988,915
Receivables:							
Accounts	59,306	0	0	3,000	0	0	62,306
Intergovernmental	0	1,022	0	0	0	0	1,022
Accrued Interest	5,782	0	0	0	0	0	5,782
Interfund Receivable	7,081	0	0	0	0	0	7,081
Prepaid Items	1,776	0	0	0	0	0	1,776
Fixed Assets	0	0	0	0	781,632	0	781,632
Other Debits:							
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	125,818	125,818
Total Assets and Other Debits	\$494,379	\$379,303	\$172,400	\$20,800	\$781,632	\$125,818	\$1,974,332
Liabilities, Fund Equity and Other Credits							
Liabilities:							
Accounts Payable	\$11,192	\$165,225	\$1,247	\$1,200	\$0	\$0	\$178,864
Accrued Wages Payable	86,287	26,063	0	0	0	0	112,350
Interfund Payable	0	2,081	0	5,000	0	0	7,081
Intergovernmental Payable	143,412	18,028	0	0	0	1,532	162,972
Undistributed Monies	0	0	0	14,600	0	0	14,600
Deferred Revenue	37,183	0	0	0	0	0	37,183
Compensated Absences Payable	2,617	0	0	0	0	124,286	126,903
Total Liabilities	280,691	211,397	1,247	20,800	0	125,818	639,953
Fund Equity and Other Credits:							
Investment in General Fixed Assets	0	0	0	0	781,632	0	781,632
Fund Balance:							
Reserved for Encumbrances	28,991	10,361	12,978	0	0	0	52,330
Unreserved, Undesignated	184,697	157,545	158,175	0	0	0	500,417
Total Fund Equity and Other Credits	213,688	167,906	171,153	0	781,632	0	1,334,379
Total Liabilities, Fund Equity and Other Credits	\$494,379	\$379,303	\$172,400	\$20,800	\$781,632	\$125,818	\$1,974,332

See Accompanying Notes to the General Purpose Financial Statements

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

	<u>GOVERNMENTAL FUND TYPES</u>			<u>TOTAL (MEMORANDUM ONLY)</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECTS</u>	
Revenues:				
Interest	\$35,778	\$0	\$0	\$35,778
Intergovernmental	1,347,241	641,921	18,000	2,007,162
Charges for Services	220,233	0	0	220,233
Tuition and Fees	0	28,992	0	28,992
Miscellaneous	4,165	200	0	4,365
Total Revenues	<u>1,607,417</u>	<u>671,113</u>	<u>18,000</u>	<u>2,296,530</u>
Expenditures:				
Current:				
Instruction:				
Regular	0	38,055	0	38,055
Special	436,616	0	0	436,616
Vocational	0	38,046	0	38,046
Support Services:				
Pupils	216,213	163,171	0	379,384
Instructional Staff	566,554	138,398	23,643	728,595
Board of Education	29,518	0	0	29,518
Administration	141,069	0	0	141,069
Fiscal	100,991	0	0	100,991
Operation and Maintenance of Plant	34,818	243	0	35,061
Pupil Transportation	3,401	0	0	3,401
Intergovernmental	0	371,172	0	371,172
Capital Outlay	0	0	8,402	8,402
Total Expenditures	<u>1,529,180</u>	<u>749,085</u>	<u>32,045</u>	<u>2,310,310</u>
Excess of Revenues Over (Under) Expenditures	<u>78,237</u>	<u>(77,972)</u>	<u>(14,045)</u>	<u>(13,780)</u>
Other Financing Sources and (Uses):				
Operating Transfers - In	0	0	27,000	27,000
Operating Transfers - Out	(27,000)	0	0	(27,000)
Total Other Financing Sources and (Uses)	<u>(27,000)</u>	<u>0</u>	<u>27,000</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>51,237</u>	<u>(77,972)</u>	<u>12,955</u>	<u>(13,780)</u>
Fund Balances at Beginning of Year	<u>162,451</u>	<u>245,878</u>	<u>158,198</u>	<u>566,527</u>
Fund Balances at End of Year	<u>\$213,688</u>	<u>\$167,906</u>	<u>\$171,153</u>	<u>\$552,747</u>

See Accompanying Notes to the General Purpose Financial Statements

This Page Intentionally Left Blank

**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:						
Interest	\$35,366	\$35,366	\$0	\$0	\$0	\$0
Intergovernmental	1,311,491	1,311,491	0	740,383	740,383	0
Charges for Services	258,672	258,672	0	0	0	0
Tuition and Fees	0	0	0	28,992	28,992	0
Miscellaneous	35,750	35,750	0	200	200	0
Total Revenues	1,641,279	1,641,279	0	769,575	769,575	0
Expenditures:						
Current:						
Instruction:						
Regular	0	0	0	44,648	44,648	0
Special	460,178	460,178	0	27,384	27,384	0
Vocational	0	0	0	40,941	40,941	0
Support Services:						
Pupils	277,138	277,138	0	333,539	333,416	123
Instructional Staff	602,713	602,713	0	159,613	159,613	0
Board of Education	32,739	32,739	0	0	0	0
Administration	150,815	150,815	0	0	0	0
Fiscal	103,000	103,000	0	0	0	0
Operation and Maintenance of Plant	34,787	34,787	0	243	243	0
Pupil Transportation	2,531	2,531	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Total Expenditures	1,663,901	1,663,901	0	606,368	606,245	123
Excess of Revenues Over (Under) Expenditures	(22,622)	(22,622)	0	163,207	163,330	123
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	5,107	5,107	0	2,500	2,500	0
Advances - In	8,734	8,734	0	2,081	2,081	0
Advances - Out	(7,081)	(7,081)	0	(8,734)	(8,734)	0
Transfers - In	0	0	0	0	0	0
Transfers - Out	(27,000)	(27,000)	0	0	0	0
Total Other Financing Sources (Uses)	(20,240)	(20,240)	0	(4,153)	(4,153)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(42,862)	(42,862)	0	159,054	159,177	123
Fund Balances at Beginning of Year	415,086	415,086	0	190,483	190,483	0
Prior Year Encumbrances Appropriated	9,260	9,260	0	13,439	13,439	0
Fund Balances at End of Year	\$381,484	\$381,484	\$0	\$362,976	\$363,099	\$123

See Accompanying Notes to the General Purpose Financial Statements

CAPITAL PROJECTS FUND

REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$0	\$0	\$0
18,000	18,000	0
0	0	0
0	0	0
0	0	0
<u>18,000</u>	<u>18,000</u>	<u>0</u>
0	0	0
0	0	0
0	0	0
0	0	0
25,936	25,936	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
21,070	21,070	0
<u>47,006</u>	<u>47,006</u>	<u>0</u>
<u>(29,006)</u>	<u>(29,006)</u>	<u>0</u>
0	0	0
0	0	0
0	0	0
27,000	27,000	0
0	0	0
<u>27,000</u>	<u>27,000</u>	<u>0</u>
(2,006)	(2,006)	0
158,629	158,629	0
1,552	1,552	0
<u>\$158,175</u>	<u>\$158,175</u>	<u>\$0</u>

This Page Intentionally Left Blank

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION OF THE REPORTING ENTITY

The Darke County Educational Service Center (the "Educational Service Center") is located in Greenville, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Mississinawa Valley, Ansonia, Arcanum-Butler, Franklin Monroe, and Tri-Village Local School Districts, the Versailles Exempted Village School District, and the Greenville City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Darke County Educational Service Center operates under a locally-elected five-member Board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 12 support staff employees, 30 certified teaching personnel and 4 administrative employees 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 Darke 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 entity which performs activities within the Educational Service Center boundaries for the benefit of its residents is excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for this entity nor is it fiscally dependent on the Educational Service Center.

City of Greenville - The city government of Greenville 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.

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

The Educational Service Center is associated with four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 14 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Darke County Schools' Professional Development Committee
Miami Valley Career Technology Center

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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 restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types:

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

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 Data

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 Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district. Prior to year end, the Educational Service Center passes estimated resources that reflected actual revenue for the fiscal year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which is the legal level 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. Prior to year end, the Educational Service Center passes appropriations to match expenditures plus encumbrances. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at 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. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 1999, investments were limited to certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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 \$35,778, which includes \$410 assigned from other Educational Service Center funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Estimates

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

F. Interfund Receivables/Payables

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

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.

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:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants

Special Revenue Funds:

Local Professional Development
Education Management Information Systems
Public School Preschool
Expanded Workforce
Title III - Eisenhower Grant
Title VI-B
Early Childhood
School-to-Work Grant
Drug Free Grant
Transition Funding
Title VI-B Early Childhood
Goals 2000

Capital Projects Fund:

Telecommunications Grant
School Net Grant

Grants and entitlements received in governmental funds amounted to approximately 83 percent of revenue during the 1999 fiscal year.

The Educational Service Center is the primary recipient of grants which are passed-through to 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.

I. Compensated Absences

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Transactions

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

L. Fund Balance Reserves

The Educational Service Center 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.

M. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

At June 30, 1999, the preschool grant had a deficit fund balance of \$3,464. The deficit in this fund is due to adjustments for accrued liabilities. The general fund is liable for the deficits in this fund and provides operating transfers when cash is required, not 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) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize 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	Capital Projects
GAAP Basis	\$51,237	(\$77,972)	\$12,955
Revenue Accruals	38,969	100,962	0
Expenditure Accruals	(97,566)	157,900	16,064
Encumbrances	(37,406)	(15,060)	(31,025)
Prepaid Items	251	0	0
Advances	1,653	(6,653)	0
Budget Basis	(\$42,862)	\$159,177	(\$2,006)

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 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);
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

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of tax exempt 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$988,915 and the bank balance was \$1,048,678. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$748,678 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the 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 did not have any investments at year end.

The classification of cash and cash equivalents 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." The classification of cash and cash equivalents on the combined financial statements and the classification of cash and cash equivalents per GASB No. 3 is the same.

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.

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

6. STATE FUNDING (Continued)

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.

7. RECEIVABLES

Receivables at June 30, 1999, consisted of accounts (excess costs), accrued interest, 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. Intergovernmental receivables consists of \$1,022 in the School-To Work Special Revenue Fund.

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
Land and Improvements	\$45,744	\$668	\$0	\$46,412
Buildings and Improvements	492,344	0	0	492,344
Equipment and Furniture	221,817	21,721	662	242,876
Total	<u>\$759,905</u>	<u>\$22,389</u>	<u>\$662</u>	<u>\$781,632</u>

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

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

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 and property insurance. Coverages provided by Nationwide Insurance are as follows:

Building and Contents-replacement cost (\$250 deductible)	\$627,040
Automobile Liability	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 reduction in insurance coverage from last year.

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), an insurance purchasing pool (Note 14). 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 Comp Management, Inc. 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 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 N. Fourth Street, Columbus, Ohio 43215-3634.

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998 and 1997 were \$18,283, \$19,780 and \$21,266, respectively; 100 percent has been contributed for all three years.

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. STRS provides retirement and disability 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 43215-3371.

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 recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$156,677, \$131,924 and \$139,103, respectively; zero percent has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal years 1998 and 1997. \$156,677 represents the unpaid contribution for fiscal year 1999, and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, four members of the Governing Board have elected social security. The Board's liability is 6.2 percent of wages paid.

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

11. POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are 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 law, the cost of coverage paid from STRS funds is 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 \$12,534 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 fiscal years of qualifying service credit, and to 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 was 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 \$16,491.

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 the annual health care expenses. Expenses for health care for the fiscal year ended 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.

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

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal 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 carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment if negotiated with the Governing Board. Teachers do not earn vacation time. All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract year in which it is earned. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 195 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 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 and surgical benefits are provided through EPC Benefit Plan Trust.

C. Deferred Compensation Plan

Educational Service Center employees and elected officials may participate in the Ohio Public Employees Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

For fiscal year 1999, the Educational Service Center has implemented GASB Statement No. 32, "Deferred Compensation Plans". This statement eliminates the requirement that the Educational Service Center report plan assets in an agency fund if the plan has established a trust fund whose assets are not held by the Educational Service Center in a fiduciary capacity. The Ohio Public Employees Deferred Compensation Plan had established such a trust fund by fiscal year end, and the amounts are no longer reported on the Educational Service Center's balance sheet as of June 30, 1999.

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

13. LONG-TERM OBLIGATIONS

The change 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	\$2,118	\$1,532	\$2,118	\$1,532
Compensated Absences	130,036	0	5,750	124,286
Total General Long-Term Obligations	\$132,154	\$1,532	\$7,868	\$125,818

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

14. 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. Payments to MDECA are made from the General Fund. During fiscal year 1999, the Educational Service Center had immaterial payments to MDECA. 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 \$6,640 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)

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

Darke County Schools' Professional Development Committee - The Darke County Schools' Professional Development Committee (PDC) is a committee established by Senate Bill 230. The purpose of the PDC is to review the course work and other professional development activities completed by educators within the district for renewal of certificates or licenses. Membership is open to all schools within Darke County, including the Darke County MRDD. The Executive Committee is comprised of a chairperson, vice-chairperson, recorder/clerk, member Superintendent, County Superintendent, chairperson of each subcommittee, and any other person that the committee deems necessary to make sure that every member school district has at least one person on the Executive Committee. The County Superintendent is the only non-voting member. The overall committee structure shall be such that teachers shall comprise the majority of the positions within the committees. There are no fees or charges to be paid by the member school districts.

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 representatives from seventeen of the twenty-six participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city, local, and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, Huber Heights, Trotwood-Madison, Carlisle, Eaton, Versailles, Northmont, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from each of the following County Educational Service Centers: Miami, Preble, and Darke. The Educational Service Center had no payments to the Miami Valley Career 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.

15. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in 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 \$1,264,653 of school foundation support for its General Fund.

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

15. STATE SCHOOL FUNDING DECISION (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly 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 been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

16. CONTINGENCIES

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

17. YEAR 2000 DISCLOSURE

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.

The Educational Service Center has completed an inventory of mission-critical computer and other equipment necessary to conducting Educational Service Center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)). The Educational Service Center has one building with power, heating and air-conditioning systems, but these systems are not affected by the Year 2000 issue.

The Educational Service Center uses the State of Ohio Uniform Accounting System software for its financial reporting, and payroll and employee benefits. The State is responsible for remediating this system.

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 EMIS. The State is responsible for remediating these systems.

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

17. YEAR 2000 DISCLOSURE (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 be successful in whole or in part, or that parties with whom the Educational Service Center does business will be Year 2000 ready.

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

Federal Grantor/ Pass Through Grantor or Direct Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U. S. Department of Education (Passed through State Department of Education)				
<i>Special Education Cluster:</i>				
Special Education - Grants to States	046615 6B-SF 98	84.027	\$176,119	\$81,398
	046615 6B-SF 97	84.027	46,664	75,837
Total Special Education - Grants to States			222,783	157,235
Special Education - Preschool Grants	046615 PG-S1 99	84.173	31,703	31,021
	046615 PG-S1 98	84.173	0	15,421
Total Special Education - Preschool Grants			31,703	46,442
Total Special Education Cluster			254,486	203,677
Safe and Drug-Free Schools and Communities - State Grants	046615 DR-S1 99	84.186	29,415	29,415
	046615 DR-S1 98	84.186	0	2,573
Total Safe and Drug-Free Schools and Communities - State Grants			29,415	31,988
Goals 2000 - State and Local Education Systemic Improvement	046615 G2-SP 99	84.276	75,000	0
Eisenhower Professional Development State Grants	046615 MS-S1 99	84.281	28,590	0
	046615 MS-S1 98 C	84.281	12,393	7,250
	046615 MS-S1 98	84.281	7,000	14,617
Total Eisenhower Professional Development State Grants			47,983	21,867
(Passed through State Department of Health)				
Special Education - Grants for Infants and Families with Disabilities	9201-B 99	84.181	39,223	30,573
	9201-B 98	84.181	27,024	37,690
Total Special Education - Grants for Infants and Families with Disabilities			66,247	68,263
Total U. S. Department of Education			473,131	325,795
U. S. Department of Labor (Passed through State Department of Education)				
Employment Services and Job Training - Pilot and Demonstration Programs	046615 WK-BE 98		27,653	27,653
	046615 WK-BE 97	17.249	992	1,232
Total Employment Services and Job Training - Pilot and Demonstration Programs			28,645	28,885
Total U. S. Department of Labor			28,645	28,885
Total Federal Financial Assistance			<u>\$501,776</u>	<u>\$354,680</u>

See the accompanying notes to Schedule of Federal Awards Expenditure.

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

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

Board of Education
Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Darke County, (the "Educational Service Center") as of and for the year ended June 30, 1999, and have issued our report thereon dated January 5, 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 5, 2000.

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

JIM PETRO
Auditor of State

January 5, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

Board of Education
Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

Compliance

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

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated January 5, 2000.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Educational Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 1999-10319-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

JIM PETRO
Auditor of State

January 5, 2000

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education -Grants to States, CFDA 84.027 and Special Education - Preschool Grants, CFDA 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	1999-10319-001
CFDA Title and Number	Special Education Cluster: Special Education -Grants to States, CFDA 84.027 Special Education - Preschool Grants, CFDA 84.173
Federal Award Number / Year	046615-6B-SF-98 046615-PG-S1-98 and 046615-PG-S1-99
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education

INTERNAL CONTROLS - REPORTABLE CONDITION

During our examination of the Educational Service Center's major programs, Special Education-Grants to States (Title VI-B) and Special Education-Preschool Grants (Title VI-B Preschool), we noted the following conditions:

- 1) some of the allowable cost transactions were not expended directly from the function / object expenditure accounts as outlined per the approved budget. A portion of the federal program was originally expended from the General Fund and recorded as an expenditure. The General Fund was later reimbursed by the federal grant funds and recorded as revenue and expenditure; respectively,
- 2) a portion of the grant award has been expended to each of the local school district's participating in the program, with limited documentation supporting details as to how each of the District's allocations are determined and no reporting requirements to be provided by the Districts back to the ESC.

The lack of establishing policy and procedures that provided detail and timely financial information which assist in the monitoring and control over the federal program could lead to noncompliance and possible future loss of funding. The accounting practice of making expenditures from the General Fund for federal programs, and reimbursing the General Fund from the federal grant funds had resulted in a material misstatement of the General Fund, which was adjusted and appropriately reflected within the accompanying financial statements.

The Educational Service Center should implement the following procedures to address the administration over federal grant programs:

- 1) all allowable cost transactions should be expended directly from the federal grant fund established within the function / object expenditure accounts as outlined per the approved budget,
- 2) written policy and procedures should be established regarding the portion of the grant award expended to each of the local school district's participating in the program, identifying the financial reporting each of the local school districts are required to submit -- ensuring that the funds are expended in accordance with program requirements.

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315 (c)
JUNE 30, 1999**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
1999-10319-001	A detailed budget for the Educational Service Center's expenditures will be prepared for the FY 2000 program. The LEA's will be required to provide sufficient detail of their qualifying special education expenditures prior to reimbursement.	June 30, 2000	Title VI-B Coordinator, Carl Jones



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

EDUCATIONAL SERVICE CENTER

DARKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 25, 2000**