MADISON COUNTY EDUCATIONAL SERVICE CENTER
MADISON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Madison County Educational Center
59 North Main Street
London, Ohio 43140

We have audited the accompanying general-purpose financial statements of the Madison County Educational Center, Madison County, Ohio (the 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 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 Madison County Educational Center, Madison County, Ohio, as of June 30, 1999, and the results of its operations and the cash flows of its nonexpendable trust fund 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 October 21, 1999 on our consideration of the 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

October 21, 1999

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

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals
	General	Special Revenue	Non Expendable Trust	General Fixed Assets	General Long Term Obligations	(Memorandum) (Only)
Assets and Other Debits:						
Equity in Pooled Cash and Investments	$ 503,124	34,162	1,601	0	0	$ 538,887
Interfund Receivable	2,468	0	0	0	0	2,468
Inter governmental Receivables	9,349	9,550	0	0	0	18,899
Accounts Receivable	904	0	15	0	0	919
Property, Plant, and Equipment	0	0	0	89,694	0	89,694
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0	225,667	225,667
Total Assets and Other Debits	$ 515,845	43,712	1,616	89,694	225,667	$ 876,534
Liabilities:						
Interfund Payable	0	2,468	0	0	0	2,468
Intergovernmental Payables	264,623	15,487	0	0	9,115	289,225
Accounts Payable	7,261	961	0	0	0	8,222
Accrued Salaries and Benefits	214,890	19,275	0	0	0	234,165
Compensated Absences Payable	18,339	0	0	0	216,552	234,891
Total Liabilities	505,113	38,191	0	0	225,667	768,971
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	89,694	0	89,694
Fund Balances:						
Reserved for Contributions	0	0	1,000	0	0	1,000
Unreserved Fund Balance	10,732	5,521	616	0	0	16,869
Total Fund Balances	10,732	5,521	1,616	0	0	17,869
Total Fund Balances/Retained Earnings and Other Credits	10,732	5,521	1,616	89,694	0	107,563
Total Liabilities, Fund Equity, and Other Credits	$ 515,845	43,712	1,616	89,694	225,667	$ 876,534

See Accompanying Notes to the General Purpose Financial

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

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum) (Only)
REVENUES:				
Revenue from Local Sources				
Tuition	$ 17,003	0	0	$ 17,003
Earnings on Investments	18,568	0	0	18,568
Miscellaneous	44,021	0	0	44,021
Revenue from State Sources				
Unrestricted Grants-in-Aid	2,224,793	0	0	2,224,793
Restricted Grants-in-Aid	0	149,982	0	149,982
Revenue from Federal Sources				
Unrestricted Grants-in-Aid	26,673	0	0	26,673
Restricted Grants-in-Aid	2,992	204,170	0	207,162
Total Revenue	2,334,050	354,152	0	2,688,202
EXPENDITURES:				
Instruction				
Regular Instruction	127,383	103,425	360	231,168
Special Instruction	964,193	4,000	2,200	970,393
Supporting Services				
Supporting Services-Pupils	303,463	80,614	775	384,852
Supporting Services-Instructional	435,553	101,254	0	536,807
Supporting Services-Board of	14,943	0	0	14,943
Supporting Services-Administration	266,865	62,720	0	329,585
Fiscal Services	46,599	4,683	0	51,282
Operation & Maintenance-Plant	1,091	2,093	0	3,184
Supporting Services-Pupil	0	273	0	273
Supporting Services-Central	5,747	1,250	0	6,997
Total Expenditures	2,165,837	360,312	3,335	2,529,484
Excess (Deficiency) of Revenues Over (Under) Expenditures	168,213	(6,160)	(3,335)	158,718
Other Financing Sources and Uses:				
Other Financing Sources				
Refund of Prior Years Expense	1,103	0	0	1,103
Net Other Financing Sources and Uses	1,103	0	0	1,103
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursement and Other Uses	169,316	(6,160)	(3,335)	159,821
Beginning Fund Balance	(158,584)	11,681	3,335	(143,568)
Ending Fund Balance	$ 10,732	5,521	0	$ 16,253

See Accompanying Notes to the General Purpose Financial Statements.

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition	$ 17,000	17,008	8	0	0	$ 0
Earnings on Investment	0	18,568	18,568	0	0	0
Miscellaneous	14,744	48,767	34,023	0	0	0
State Unrestricted Grants-in-Aid	2,203,235	2,224,793	21,558	0	0	0
State Restricted Grants-in-Aid	0	0	0	149,982	149,982	0
Federal Unrestricted Grants-in-Aid	5,000	21,774	16,774	0	0	0
Federal Restricted Grants-in-Aid	3,500	2,992	(508)	204,170	194,620	(9,550)
Total Revenue	2,243,479	2,333,902	90,423	354,152	344,602	(9,550)
Expenditures:						
Regular Instruction	17,000	4,540	12,460	118,763	104,851	13,912
Special Instruction	1,127,375	1,046,461	80,914	4,000	4,000	0
Support Services-Pupils	321,115	305,653	15,462	74,837	69,082	5,755
Support Services-Instructional Staff	479,425	464,348	15,077	105,764	103,136	2,628
Support Services-Board of	22,650	8,420	14,230	0	0	0
Support Services-Administration	303,474	286,292	17,182	65,748	62,656	3,092
Support Services-Fiscal Services	53,361	45,705	7,656	5,733	4,683	1,050
Operation & Maintenance-Plant	2,400	1,091	1,309	2,436	2,234	202
Support Services-Transportation	0	0	0	800	84	716
Support Services-Central	8,600	5,642	2,958	1,460	1,250	210
Total Expenditures	2,335,400	2,168,152	167,248	379,541	351,976	27,565
Excess of Revenue Over (Under) Expenditures	(91,921)	165,750	257,671	(25,389)	(7,374)	18,015
Other Financing Sources (Uses):						
Transfers-In	16,700	0	(16,700)	0	0	0
Advances-In	0	0	0	0	2,468	2,468
Advances-Out	0	(2,468)	(2,468)	0	0	0
Refund of Prior Years /Receipts	0	17,125	17,125	0	0	0
Total Other Sources (Uses)	16,700	14,657	(2,043)	0	2,468	2,468
Sources Over (Under) Expenditures and Other Financing Uses	(75,221)	180,407	255,628	(25,389)	(4,906)	20,483
Beginning Fund Balance	322,479	322,479	0	25,388	25,388	0
Ending Fund Balance	$ 247,258	502,886	255,628	(1)	20,482	$ 20,483

See Accompanying Notes to the General Purpose Financial Statements.

(Continued)

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

	Capital Projects Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition	$ 0	0	0	17,000	17,008	$ 8
Earnings on Investment	0	0	0	0	18,568	18,568
Miscellaneous	0	0	0	14,744	48,767	34,023
State Unrestricted Grants-in-Aid	0	0	0	2,203,235	2,224,793	21,558
State Restricted Grants-in-Aid	0	0	0	149,982	149,982	0
Federal Unrestricted Grants-in-Aid	0	0	0	5,000	21,774	16,774
Federal Restricted Grants-in-Aid	0	0	0	207,670	197,612	(10,058)
Total Revenue	0	0	0	2,597,631	2,678,504	80,873
Expenditures:						
Regular Instruction	360	360	0	136,123	109,751	26,372
Special Instruction	2,200	2,200	0	1,133,575	1,052,661	80,914
Support Services-Pupils	775	775	0	396,727	375,510	21,217
Support Services-Instructional Staff	0	0	0	585,189	567,484	17,705
Support Services-Board of	0	0	0	22,650	8,420	14,230
Support Services-Administration	0	0	0	369,222	348,948	20,274
Support Services-Fiscal Services	0	0	0	59,094	50,388	8,706
Operation & Maintenance-Plant	0	0	0	4,836	3,325	1,511
Support Services-Transportation	0	0	0	800	84	716
Support Services-Central	0	0	0	10,060	6,892	3,168
Total Expenditures	3,335	3,335	0	2,718,276	2,523,463	194,813
Excess of Revenue Over (Under) Expenditures	(3,335)	(3,335)	0	(120,645)	155,041	275,686
Other Financing Sources (Uses):						
Transfers-In	0	0	0	16,700	0	(16,700)
Advances-In	0	0	0	0	2,468	2,468
Advances-Out	0	0	0	0	(2,468)	(2,468)
Refund of Prior Years /Receipts	0	0	0	0	17,125	17,125
Total Other Sources (Uses)	0	0	0	16,700	17,125	425
Sources Over (Under) Expenditures and Other Financing Uses	(3,335)	(3,335)	0	(103,945)	172,166	276,111
Beginning Fund Balance Prior Year	3,335	3,335	0	351,202	351,202	0
Ending Fund Balance	$ 0	0	0	247,257	523,368	$ 276,111

See Accompanying Notes to the General Purpose Financial Statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
NON-EXPENDABLE TRUST FUND
YEAR ENDED JUNE 30, 1999

	Non-Expendable Trust Fund
Operating Revenues:	
Earnings on Investment	$ 116
Total Operating Revenue	116
Operating Expenses:	
Other Expenses	75
Total Operating Expenses	75
Net Income	41
Beginning Fund Balance	1,575
Fund Balance End of Year	$ 1,616

See Accompanying Notes to the General Purpose Financial

STATEMENT OF CASH FLOWS
NON-EXPENDABLE TRUST FUND
YEAR ENDED JUNE 30, 1999

	Non-Expendable Trust Fund
Cash Flows from Operating Activities	
Operating Income	$ 41
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Net Decrease in Assets -	
Accounts Receivable	(15)
Net Cash Provided by Operating Activities	26
Net Increase in Cash & Cash Equivalents	26
Cash and Cash Equivalents at Beginning of Year	1,575
Cash and Cash Equivalents at End of Year	$ 1,601

See Accompanying Notes to the General Purpose Financial Statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Madison County Educational Service Center (the Center) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 Center's accounting policies are described below.

A. Reporting Entity

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a County School District as defined by Section 3313 of the Ohio Revised Code.

The Center is governed by a five member Governing Board elected by the citizens of Madison County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves three local school districts: Jefferson Local, Jonathan Alder Local, and Madison Plains Local and London City School Districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Madison County are served on an individual contract basis for various services.

The Center is located in London, Ohio and is staffed by 51 certified and 16 non-certified personnel. The Madison County commissioners, as required by State Statute, provide the offices for the use of the Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement 14, The Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

B. Fund Accounting

The 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 government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types:

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund

This fund 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 Center for any purpose provided it is expended or transferred according to the bylaws of the Center and the laws of the State of Ohio.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Proprietary Fund Types:

Proprietary funds are used to account for ongoing activities which are similar to those found in the private sector. The Center has no proprietary fund types.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Non-expendable Trust Funds

These funds account for trust principal which may not be expended. Only interest earned on the principal may be used for trust operations. Non-expendable trust funds are accounted for in essentially the same manner as proprietary funds.

Account Groups:

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group

This account group is used to account for all of the Center's fixed assets.

General Long-Term Obligations Account Group

This account group is used to account for all of the Center's long-term obligations.

C. Measurement Focus/Basis of Accounting

The modified accrual basis of accounting is followed for governmental funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

1) Only current assets and current liabilities are generally included on their balance sheets.

2) Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

3) Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the Center is 60 days after year end.

   a) Revenue accrued at the end of the year may include fees, interest and tuition.

4) Expenditures are recognized in the period in which the fund liability is incurred with the following exception: the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental fund types are subject to annual expenditures budgets.

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education no later than September 8.

Appropriations

An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

1) The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP basis). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

b) Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);

c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and

d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget and Budgetary Accounting (Continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the 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.

E. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the combined balance sheet. During the fiscal year all investments were limited to certificates of deposit, STAR Ohio and repurchase agreements.

Investments are reported at cost except for investments in STAR Ohio.

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 1998-99. 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.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund and Trust Fund during the fiscal year amounted to $18,684.

F. Taxes

A county educational service center does not itself levy taxes. However, a county educational service center Governing Board may serve as the taxing authority for a county school financing Center as authorized by the Ohio Revised Code 135.01 (D). The Center does not currently serve as a taxing authority.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Center has a capitalization threshold of $300.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized.

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

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, 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 Center currently participates in several State and Federal programs, categorized as follows:

Entitlements:
General Fund
State Foundation Program
Special Revenue Funds
Educational Management Information Systems

Non-Reimbursable Grants:
Special Revenue Funds
Public Preschool Grant
Title VI-B Early Childhood Preschool Grant
Early Childhood Educational Development Grant
Preschool Disabilities Grant
Telecommunity Fund

Grants and entitlements amounted to approximately 97% of the Center's operating revenue during the 1999 fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee. 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available 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 debt account group.

K. Long-Term Obligations

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

L. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for contributions for the Center's Non-Expendable Trust Fund. The unreserved portions of fund equity reflected for the Governmental Funds and Non-Expendable Trust Fund are available for use within the specific purposes of those funds.

N. Memorandum Only - Total Columns

Total columns on the general purposes financial statements are captioned "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.

O. 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.

2. BUDGETARY BASIS OF ACCOUNTING

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
Governmental Fund Types

	General Fund	Special Revenue	Capital Projects
GAAP Basis	$ 169,316	(6,160)	$ (3,335)
Increase (Decrease):			
Due to Revenues:			
Net Adjustments to Revenue	(148)	(9,550)	0
Due to Expenditures:			
Net Adjustments to Expenditure	(2,315)	8,336	0
Due to Other:	13,554	2,468	0
Budget Basis	$ 180,407	(4,906)	$ (3,335)

3. FUND DEFICITS

Fund Deficits:

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

Special Revenue: Title VIB ($5,236)

The deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in the funds and provides operating transfers when cash is required, not when accruals occur.

4. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Governing Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio;

4. CASH AND CASH EQUIVALENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio); and

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

Deposits: At year end, the carrying amount of the Center's deposits was ($7,754) and the bank balance was $31,940. The bank balance was covered by the Federal Depository Insurance Corporation (FDIC).

Investments: The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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 Center's name. STAROhio is unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

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

	Category 3	Carrying Amount	Fair Value
Repurchase Agreement	$ 232,000	$ 232,000	$ 232,000
STAR Ohio		314,641	314,641
		$ 546,641	$ 546,641

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."

4. CASH AND CASH EQUIVALENTS (Continued)

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

	Cash	Investments
GASB Statement No.9	$ 538,887	
Investments:		
Repurchase Agreement	(232,000)	232,000
STAR Ohio	(314,641)	314,641
GASB Statement No.3	$ (7,754)	$ 546,641

5. RECEIVABLES

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

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Tuition	$ 1,035
Excess Costs	3,416
Bureau of Workers Comp. Refund	4,898
Total General Fund	9,349
Special Revenue Fund:	
School Age Child Care	9,550
Grand Total	$ 18,899

6. FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 1999:

	General Fixed Assets June 30, 1998	Additions	Deletions	General Fixed Assets June 30, 1999
Furniture and Equipment	$ 80,158	9,536	0	$ 89,694

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1998, the portion used 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 Center's contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $269,974, $235,960, and $236,287 respectively; nothing has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. $269,974 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The Center contributes to the School Employees Retirement System (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 N. Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 9.79 percent was the portion 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 Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $36,988, $34,326, and $22,536, respectively; 78.5 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. $779 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and $9,115 for surcharge is recorded in the general long-term obligations account group.

7. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security

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, one member of the Governing Board have elected social security. The Board's liability is 6.2 percent of wages paid.

8. POSTEMPLOYMENT BENEFITS

The 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, 1998, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1998, this allocation was increased to 3.5 percent. For the Center, this amount equaled $67,494 during fiscal 1999.

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

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

For the fiscal year 1998 (the latest information available), employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, 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. For the Center, the amount to fund health care benefits, including the surcharge, equaled $20,237 during the 1999 fiscal year.

9. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center Policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

Employees earn ten to twenty days of vacation per year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless by written request to the Superintendent. Accumulated, unused vacation time is paid to employees upon termination of employment.

Personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1	10
2-4	15
5-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 55 days.

10. RISK MANAGEMENT

General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of $2,000,000 for each occurrence and $5,000,000 in the aggregate.

The Center maintains replacement cost insurance on building contents in the amount of $50,000. Other insurance includes hired, non-owned auto coverage for employees using their vehicles for Center business.

Workers Compensation-Public Entity Risk Pool

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

10. RISK MANAGEMENT (Continued)

Workers Compensation-Public Entity Risk Pool (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Health Insurance

The Center provides life insurance and accidental death and dismemberment insurance to its employees. The Center has elected to provide employee medical/surgical benefits and dental through Anthem Blue Cross and Blue Shield and Delta Dental, fully funded programs.

11. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 1999, are as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30,1999
Intergovernmental Payable	$ 9,157	9,115	9,157	$ 9,115
Early Retirement Incentive	122,685	0	122,685	0
Compensated Absences Payable	187,074	216,552	187,074	216,552
Totals	$ 318,916	225,667	318,916	$ 225,667

12. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council

MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is it's own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

13. CONTINGENCIES

A. Grants

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

B. Litigation

The Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 1999.

14. 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 Center. During the fiscal year ended June 30, 1999, the Center received $2,224,793 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution.

The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of September 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the 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.

15. YEAR 2000 ISSUE

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

Due to the merger effective July 1, 1999 between the Madison County and Champaign County Educational Service Centers, remediation of the Year 2000 issue will be the responsibility of the Madison/Champaign County Educational Service Center.

16. SUBSEQUENT EVENTS

Effective July 1, 1999 the Center has merged with the Champaign County Educational Service Center in compliance with Section 45.32 of Am. Sub. H.B. 117, 121st General Assembly as subsequently amended to require any Educational Service Center (ESC) serving fewer than eight thousand ADM pupils to merge.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

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

Board of Education
Madison County Educational Service Center
59 North Main Street
London, Ohio 43140

We have audited the financial statements of the Madison County Educational Center, Madison County, Ohio (the Center), as of and for the year ended June 30, 1999, and have issued our report thereon dated October 21, 1999. 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 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated October 21, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

October 21, 1999

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

MADISON 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 8, 2000