NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

We have audited the accompanying general purpose financial statements of the North Central Ohio Educational Service Center, Seneca County, (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 Center, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types 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 December 27, 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the 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

December 27, 1999

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

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
ASSETS AND OTHER DEBITS									
ASSETS:									
Equity in pooled cash and cash equivalents	$1,375,103	$554,817	$310,401	$14,736		$88,914			$2,343,971
Cash with fiscal agent					$203,284				203,284
Due from other governments	43,835	18,500		2,200					64,535
Prepayments.	14,259	922							15,181
Property, plant and equipment (net of accumulated depreciation where applicable)							$912,082		912,082
OTHER DEBITS:									
Amount to be provided for retirement of general long-term obligations								$291,308	291,308
Total assets and other debits	$1,433,197	$574,239	$310,401	$16,936	$203,284	$88,914	$912,082	$291,308	$3,830,361

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

(Continued)

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

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
LIABILITIES, EQUITY AND OTHER CREDITS									
LIABILITIES:									
Accounts payable.	$27,877	$20,442	$55						$48,374
Accrued wages and benefits	371,991	22,250	83						394,324
Compensated absences payable	36,950	182						$268,070	305,202
Due to other governments		46,914	60,000						106,914
Pension obligation payable.	410,363	16,141						19,157	445,661
Capital lease obilgation payable . . .								4,081	4,081
Deferred revenue.		25,000							25,000
Due to other	2,137					$85,602			87,739
Total liabilities	849,318	130,929	60,138			85,602		291,308	1,417,295
EQUITY AND OTHER CREDITS:									
Investment in general fixed assets . .							$912,082		912,082
Retained earnings: unreserved				$16,936	$203,284				220,220
Fund balances:									
Reserved for encumbrances.	477,263	157,097	184,702						819,062
Reserved for prepayments	14,259	922							15,181
Unreserved-undesignated	92,357	285,291	65,561			3,312			446,521
Total equity and other credits	583,879	443,310	250,263	16,936	203,284	3,312	912,082		2,413,066
Total liabilities, equity and other credits	$1,433,197	$574,239	$310,401	$16,936	$203,284	$88,914	$912,082	$291,308	$3,830,361

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

	Governmental Fund Types			Fiduciary Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:					
From local sources:					
Earnings on investments	$100,521				$100,521
Services provided to other districts	764,586				764,586
Other local revenues	150,548	$13,450	$414,000	$2,000	579,998
Intergovernmental - State	4,795,160	1,056,157			5,851,317
Intergovernmental - Federal		1,065,308			1,065,308
Total revenue	5,810,815	2,134,915	414,000	2,000	8,361,730
Expenditures:					
Current:					
Instruction:					
Regular	185,810	52,358			238,168
Special	1,903,486	134,311			2,037,797
Other	140				140
Support services:					
Pupil	1,024,182	100,497	190		1,124,869
Instructional staff	1,454,629	761,796	166,140		2,382,565
Board of Education	24,699	600	55	2,000	27,354
Administration	480,841	849,901	14,665		1,345,407
Fiscal	237,590	31,992	2,613		272,195
Business	54,846				54,846
Operations and maintenance	61,142	3,729			64,871
Pupil transportation	5,715	25,261			30,976
Central	135,934	1,700			137,634
Debt service:					
Principal retirement	3,767				3,767
Interest and fiscal charges	370				370
Total expenditures	5,573,151	1,962,145	183,663	2,000	7,720,959
Excess (deficiency) of revenues over (under) expenditures	237,664	172,770	230,337	0	640,771
Other financing sources (uses):					
Operating transfers in		600			600
Operating transfers out	(600)				(600)
Proceeds from sale of assets	73				73
Total other financing sources (uses)	(527)	600			73
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	237,137	173,370	230,337	0	640,844
Fund balances, July 1	346,742	269,940	19,926	3,312	639,920
Fund balances, June 30	$583,879	$443,310	$250,263	$3,312	$1,280,764

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

	General			Special Revenue			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:												
From local sources:												
Earnings on investments	$60,000	$102,478	$42,478							$60,000	$102,478	$42,478
Services provided to other districts	736,709	751,877	15,168							736,709	751,877	15,168
Other local revenue	194,975	188,251	(6,724)	$500	$13,450	$12,950	$552,000	$414,000	($138,000)	747,475	615,701	(131,774)
Intergovernmental - State	4,776,774	4,795,160	18,386	1,174,320	1,082,977	(91,343)				5,951,094	5,878,137	(72,957)
Intergovernmental - Federal				841,103	1,068,106	227,003				841,103	1,068,106	227,003
Total revenues	5,768,458	5,837,766	69,308	2,015,923	2,164,533	148,610	552,000	414,000	(138,000)	8,336,381	8,416,299	79,918
Expenditures:												
Current:												
Instruction:												
Regular	236,323	215,866	20,457	73,058	54,358	18,700				309,381	270,224	39,157
Special	2,171,114	2,065,925	105,189	168,143	136,190	31,953				2,339,257	2,202,115	137,142
Other	1,125	140	985							1,125	140	985
Support services:												
Pupil	1,193,749	1,131,064	62,685	118,823	116,757	2,066	190	190	0	1,312,762	1,248,011	64,751
Instructional staff	1,650,501	1,638,163	12,338	880,240	760,435	119,805	426,459	350,267	76,192	2,957,200	2,748,865	208,335
Board of Education	27,726	24,830	2,896	600	600	0				28,326	25,430	2,896
Administration	616,764	608,432	8,332	1,241,389	965,412	275,977	102,077	15,225	86,852	1,960,230	1,589,069	371,161
Fiscal	266,684	250,691	15,993	53,823	32,817	21,006	43,200	2,600	40,600	363,707	286,108	77,599
Business	56,870	56,410	460							56,870	56,410	460
Operations and maintenance	63,319	59,774	3,545	8,643	8,643	0				71,962	68,417	3,545
Pupil transportation	15,049	12,511	2,538	25,261	19,645	5,616				40,310	32,156	8,154
Central	174,713	141,749	32,964	1,700	1,700	0				176,413	143,449	32,964
Community services				200	0	200				200	0	200
Total expenditures	6,473,937	6,205,555	268,382	2,571,880	2,096,557	475,323	571,926	368,282	203,644	9,617,743	8,670,394	947,349
Excess (deficiency) of revenues over (under) expenditures	(705,479)	(367,789)	337,690	(555,957)	67,976	623,933	(19,926)	45,718	65,644	(1,281,362)	(254,095)	1,027,267
Other financing sources (uses):												
Refund of prior year's expenditures	0	63	63							0	63	63
Refund of prior year's (receipts)	(8,148)	(8,148)	0							(8,148)	(8,148)	0
Pass-through	(50,000)	0	50,000							(50,000)	0	50,000
Operating transfers in				0	600	600	17,059	17,059	0	17,059	17,659	600
Operating transfers (out)	(600)	(600)	0				(17,059)	(17,059)	0	(17,659)	(17,659)	0
Advances in	18,000	18,900	900							18,000	18,900	900
Advances (out)				(18,900)	(18,900)	0				(18,900)	(18,900)	0
Proceeds from sale of fixed assets	0	73	73							0	73	73
Total other financing sources (uses)	(40,748)	10,288	51,036	(18,900)	(18,300)	600	0	0	0	(59,648)	(8,012)	51,636
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(746,227)	(357,501)	388,726	(574,857)	49,676	624,533	(19,926)	45,718	65,644	(1,341,010)	(262,107)	1,078,903
Fund balances, July 1	746,228	746,228	0	219,501	219,501	0	19,750	19,750	0	985,479	985,479	0
Prior year encumbrances appropriated	481,583	481,583	0	77,615	77,615	0	176	176	0	559,374	559,374	0
Fund balances, June 30	$481,584	$870,310	$388,726	($277,741)	$346,792	$624,533	$0	$65,644	$65,644	$203,843	$1,282,746	$1,078,903

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Operating revenues:			
Sales/charges for services		$3,416	$3,416
Other operating revenues	$17,500		17,500
Total operating revenues	17,500	3,416	20,916
Operating expenses:			
Contract services	9,769		9,769
Other operating expenses		3,416	3,416
Total operating expenses	9,769	3,416	13,185
Operating income	7,731	0	7,731
Nonoperating revenues:			
Interest revenue		10,482	10,482
Total nonoperating revenues		10,482	10,482
Net income	7,731	10,482	18,213
Retained earnings, July 1	9,205	192,802	202,007
Retained earnings, June 30	$16,936	$203,284	$220,220

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Cash flows from operating activities:			
Cash received from sales/service charges		$3,416	$3,416
Cash received from other operations.	$16,425		16,425
Cash payments for contract services	(9,769)		(9,769)
Cash payments for other expenses		(3,416)	(3,416)
Net cash provided by operating activities.	6,656	0	6,656
Cash flows from investing activities:			
Interest received		10,482	10,482
Net cash provided by investing activities.		10,482	10,482
Net increase in cash and cash equivalents.	6,656	10,482	17,138
Cash and cash equivalents at beginning of year. . . .	8,080	192,802	200,882
Cash and cash equivalents at end of year	$14,736	$203,284	$218,020
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$7,731	$0	$7,731
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Changes in assets and liabilities:			
Increase in due from other governments.	(1,075)		(1,075)
Net cash provided by operating activities	$6,656	$0	$6,656

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE ENTITY

The North Central Ohio Educational Service Center (“ESC”) 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 ESC is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Seneca and Wyandot Counties. The board is its own fiscal agent and issues its own financial statements.

The ESC provides regular, vocational, and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions. The ESC is staffed by 63 non-certificated employees and 100 certificated employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the ESC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

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

A. The Reporting Entity

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)
The NOECA is a jointly governed organization among forty-one area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each Service center's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

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

Marion Area Partners in Education ("Council")
The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions, and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Council shall be composed of an optional number of members as determined by the Center's superintendent. The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOL

North Central Ohio Joint Self-Insurance Association ("Association")
The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts - Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Education Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association but their financial statements are not reported with the ESC's financial statements.

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

Capital Project Funds - The capital project funds are used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the ESC's Proprietary fund types:

Enterprise Funds - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises–where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges: or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to the other departments or agencies of the ESC, or to other governments, on a cost-reimbursement basis.

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and agency funds. The expendable trust fund is accounted for in the same manner as governmental funds. The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3 for an analysis of the agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

The Service Center is the administrative agent for the Seneca and Marion Family and Children First Councils which receives state subsidiary and federal grants. This fund receives no interest and therefore the ESC is not sponsoring an external investment pool.

ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC except those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

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

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

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

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

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

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

D. Budgets

A County ESC is required by State Statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

Annually, on or before the date designated by the State Board of Education, the ESC shall prepare a budget of operating expenses for the ensuing fiscal year on forms prepared and furnished, and shall certify same to the State Board of Education together with such other information as the Board may require. Such budget shall consist of two parts: Part (A) shall include the cost of salaries, employer's retirement contributions and travel expenses of supervisory teachers approved by the State Board; Part (B) shall include the cost of all other lawful expenditures of the ESC.

Estimated Resources:

The ESC estimates its breakdown of revenue to the State Department of Education by January 20 of each year. This breakdown then serves as the State Department's basis for determining the revenue to be received by the ESC. This breakdown is also used as the basis for the annual appropriation measure.

Appropriations:

A temporary appropriation resolution to control expenditures may be passed on or about July 1 of each year for the period of July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function, object level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the ESC. Several supplemental appropriation resolutions were legally enacted by the ESC during the year. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts including all amendments and modifications.

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

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and 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 for governmental fund types are reported as reservations of fund balances for subsequent-year expenditures.

Lapsing of Appropriations:

As the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

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

During fiscal year 1999, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair market value which is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

The ESC has invested funds in STAR Ohio during fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Action 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 statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund and to the Self-Insurance internal service fund, which receives interest earnings as the amount is held by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool. Interest revenue credited to the general fund during fiscal 1999 amounted to $100,521 which includes $33,231 assigned from other ESC funds and interest revenue credited to the Self-Insurance internal service fund during fiscal 1999 amounted to $10,482 which includes $938 assigned from other ESC funds.

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

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

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

F. Fixed Assets and Depreciation

General Fixed Assets Account Group

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. General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than $200 and a useful life of less than one year. 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. No depreciation is recognized for assets in the general fixed assets account group.

G. Intergovernmental Revenues

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

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

General Fund
Regional Professional Development Grant

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

Non-Reimbursable Grants

Special Revenue Funds
Management Information Systems
MRDD Early Intervention Parent Monitoring
Child Abuse Prevention
Special Education Transition
Welcome Home Newborn Grant
School Based Professional Development
State Implementation Grant
Early Start Grant
Preschool Grants for the Handicapped
Title I
Public School Preschool
GOALS 2000
Early Start Expansion Grant
Entry Year Program
Wellness Block Grants
Parent Mentor Grant
Family Stability Grant

Capital Project Funds
Telecommunity Planning Grant

Grants and entitlements amounted to over 83% of the ESC's operating revenue during the 1999 fiscal year.

H. Compensated Absences

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

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

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

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

Accumulated vacation and severance liabilities of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and severance liability for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

I. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following fiscal year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

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

J. Marion County Board of Education Consortium ("Consortium")

The Consortium was organized by four local districts in Marion County: Elgin, Pleasant, Ridgedale and River Valley. The intent of the Consortium is to achieve the benefits of a reduced rate for purchases of natural gas by members by virtue of their grouping and representation. The ESC acts as fiscal agent for the Consortium, but has no financial involvement beyond its fiduciary responsibility as fiscal agent. The activity of the Consortium is reflected in the GPFS as an agency fund.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and prepayments. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

L. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had no short-term interfund loans receivable or payable at June 30, 1999.

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

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 1999.

See Note 5 for an analysis of the interfund transactions.

M. Prepayments

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

N. Estimates

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

O. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

ASSETS	
Due from other governments	$ 824
LIABILITIES	
Accounts payable	218
Due to other governments	1,973

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the ESC into three categories:

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

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

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

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

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

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

10. 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;

11. 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;

12. Bonds and other obligations of the State of Ohio;

13. 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;

14. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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

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

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

Cash on hand: At fiscal year end, the ESC had $1,000 in undeposited cash on hand which is included on the combined balance sheet of the ESC as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with fiscal agent: The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency which is included on the balance sheet as "Cash with Fiscal Agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 1999, was $203,284.

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

Deposits: At year-end the carrying amount of the ESC's deposits was $(318,343) and the bank balance was $41,950. The ESC did not record a liability due to the "zero balance" nature of the account. The entire bank balance was covered by federal depository insurance. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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

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

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

	Category 2	Reported Amount	Fair Value
Repurchase agreements	$878,369	$ 878,369	$ 878,369
Investment in STAR Ohio		1,782,945	1,782,945
Total investments	$878,369	$2,661,314	$2,661,314

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

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$ 2,547,255	$ 0
Investments of the cash management pool:		
Repurchase agreement	(878,369)	878,369
Investment in STAR Ohio	(1,782,945)	1,782,945
Cash on hand	(1,000)	- - -
Cash with fiscal agent	(203,284)	- - -
GASB Statement No. 3	$ (318,343)	$2,661,314

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the ESC's operating transfers for fiscal year 1999:

	Transfers In	Transfers Out
General Fund	$ - - -	$ 600
Special Revenue Funds		
F.B. Walter Scholarship Fund	600	- - -
Totals	$ 600	$ 600

NOTE 6 - RECEIVABLES

Receivables at June 30, 1999 consisted of accrued interest and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year), and amounts due from other funds. Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of Federal funds. A summary of the principal items of receivables follows:

NOTE 6 - RECEIVABLES - (Continued)

	Amounts
General Fund	
Prepayments	$14,259
Due from other governments	43,835
Special Revenue Funds	
Due from other governments	18,500
Enterprise Fund	
Due from other governments	2,200

NOTE 7 - FIXED ASSETS

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

	Balance July 1, 1998	Additions	Disposals	Balance June 30, 1999
Furniture/ equipment	$698,682	$213,400	$ - - -	$912,082

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the ESC entered into a capital lease for a copier. The terms of the lease agreement provide an option to purchase the copier. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Fund Types and Expendable Trust Funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 1999 fiscal year totaled $3,767. This amount is reflected as debt service principal retirement in the general fund.

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is an analysis of the copier under capital lease as of June 30, 1999:

	General Fixed Assets
Equipment (copier)	$16,673
Carrying value	$16,673

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999:

General Long-Term Obligation

Year Ending June 30,	Copier
2000	$4,137
2001	345
Total minimum lease payments	$4,482
Less: amount representing interest	(401)
Present value of future minimum lease payment	$4,081

The ESC does not have a capitalized lease obligation after fiscal year 2001.

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the general long-term obligations account group:

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Compensated absences	$246,471	$ 98,757	$ (77,158)	$268,070
Pension obligation payable	52,072	19,157	(52,072)	19,157
Capital lease obligation	7,848	- - -	(3,767)	4,081
Total	$306,391	$117,914	$(132,997)	$291,308

Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid. The capital lease payments are made from the general fund.

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:
Each full time professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth (1 1/4) days for each calendar month under contract. Sick leave is cumulative to two hundred (200) days.

Severance Pay:
In accordance with statute, all employees who present evidence of retirement from active service with the ESC shall be granted severance pay for their accrued by unused sick leave days. The aggregate value of accrued but unused sick leave credit that is paid shall not exceed the value of thirty (30) days except as provided for below.

The ESC authorizes the payment to a retiring employee of one-fourth (1/4) of his/her unused sick leave days to a maximum of 50 days.

For purposes of this policy, “retirement” means retirement under the State Teachers’ Retirement System.

NOTE 10 - COMPENSATED ABSENCES - (Continued)

A. In order to qualify for severance pay, an employee shall:

   1. Have served ten or more years of active service covered by STRS with the State or a political subdivision or a combination thereof;

   2. Have been employed by the ESC for a lease five years; and

   3. Express his/her intention to retire on or before his/her last day of service.

B. In order to qualify for more than thirty (30) days of severance pay, an employee must have been employed by the ESC or by a local school within the County for a minimum of ten (10) years.

C. Severance pay is made by the ESC in the following manner:

   1. Payment is made no later than sixty (60) days after the application is filed unless a later payment date is requested, in writing, by the employee. All payments are made within one year of the employee's last day of employment. The employee's retirement is verified by the retirement system, and a written request for severance pay must be submitted by the employee.

   2. Such payment is made only once to an employee.

   3. Payments are based upon the employee's daily rate of base pay based on the days of service at the time of retirement exclusive of any overtime or any supplemental pay.

   Payment of severance pay eliminates all obligations of the ESC at the time of retirement from any further payment or restoration of sick leave unused.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of vacation leave accrued for the immediately preceding two years in addition to the pro-rated portion of their earned but unused vacation leave for the current year.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

B. Employee Health Insurance

The ESC is a member of the North Central Joint Insurance Trust ("Association"). This organization is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky Educational Service Center, and five school districts: Tiffin, Old Fort, Bettsville, Seneca East and New Riegel (see Note 2.A). The Association was established pursuant to ORC 9.833 in order to provide health care benefits.

Each member school district and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A). The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $127,334, $105,297, and $79,318, respectively; 100 percent has been contributed for fiscal years 1999, 1998 and 1997.

B. State Teachers Retirement System

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $427,008, $398,365, and $430,507, respectively; nothing has been contributed for fiscal year 1999, and 100% has been contributed for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 1999, six members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled $34,161 during fiscal 1999.

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

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

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

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were $111.901 million and the target level was $139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of $160.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled $31,389 during the 1999 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

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

	General	Special Revenue	Capital Projects
Budget basis	$(357,501)	$ 49,676	$ 45,718
Net adjustment for revenue accruals	(26,951)	(29,618)	- - -
Net adjustment for expenditure accruals	127,611	(73,612)	(60,138)
Net adjustment for other financing sources (uses)	(10,815)	18,900	- - -
Encumbrances (budget basis)	504,793	208,024	244,757
GAAP basis	$237,137	$173,370	$230,337

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this ESC. During the fiscal year ended June 30, 1999, the ESC received $4,792,660 of total 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. 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.

NOTE 15 - CONTINGENCIES - (Continued)

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

NOTE 16 - 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 ESC's operations as early as fiscal year 1999.

The ESC has completed an inventory of computer systems and other equipment necessary to conducting ESC operations and has identified such systems as being financial reporting, payroll and employee benefits, fixed assets accounting and educational statistics reporting.

The ESC uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits and the State of Ohio Education Management and Information System (EMIS) for its education statistics reporting. The State is responsible for remediating these systems.

The Ohio Department of Education, Division of Information Management Services, State Software Development Team has addressed the status of the OECN State Software in regards to the compliance requirements for the Year 2000. Their assessment is as follows:

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.

- The accounting software supported with the OECN State Software is compliant with the Year 2000 beginning with the June 1998 release of USAS V6.1.

- The education management information system software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

NOTE 16 - YEAR 2000 ISSUE - (Continued)

The State of Ohio distributes a substantial sum of money to the ESC in the form of basic state aid “school foundation” and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the ESC through EMIS. The State is responsible for remediating these systems.

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

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

Federal Grantor *Pass-Through Grantor* Program Title	CFDA Number	Project Number	Receipts	Disbursements
United States Department Of Education *Passed Through Ohio Department of Education*				
Dwight D. Eisenhower Math and Science Education Grant	84.281	049676MS-S199		$2,448
		049676MS-S198		1,087
Total Eisenhower Grant				3,535
Special Education Cluster				
Handicapped Preschool and School Program - Title VI-B	84.173	049676PGS198P	7,399	43,717
		123257PGS199P	132,495	103,663
Total Preschool Title VI-B Grant			139,894	147,380
Education of the Handicapped - Title VI-B Flow Through Grant	84.027	049676B-SF97		285
Total Special Education Cluster			139,894	147,665
Drug Free Schools and Communities Act	84.186	049676DR-S198		4,516
		049676DR-S196		23
Total Drug Free Schools and Communities Act				4,539
Title I ESEA	84.010	123257-C1-SP-99	100,000	89,586
		123257-C1-ST-99	144,900	131,754
		123257-C1-ST-98	16,176	31,959
		123257-C1-ST-97		1,418
Total Title I ESEA			261,076	254,717
Goals 2000 Grant	84.276	123257-G2-S3-99	193,097	105,901
		123257-G2-SP-99	161,000	120,910
		123257-GS-S3-98		54,963
Total Goals 2000 Grant			354,097	281,774
Total Department Of Education			755,067	692,230
TOTAL FEDERAL FINANCIAL ASSISTANCE			$755,067	$692,230

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

We have audited the financial statements of the North Central Ohio Educational Service Center, Seneca County, (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 27, 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*.

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. 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 Center in a separate letter dated December 27, 1999.

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

Jim Petro
Auditor of State

December 27, 1999

State of Ohio
Office of the Auditor

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

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

Compliance

We have audited the compliance of the North Central Ohio Educational Service Center, Seneca County, (the 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 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 Center's management. Our responsibility is to express an opinion on the 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 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 Center's compliance with those requirements.

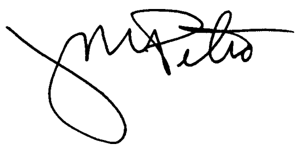
In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable its major federal program for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the 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 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Jim Petro
Auditor of State

December 27, 1999

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 material 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?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (list):**	Title I CFDA # 84.010
(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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA 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 18, 2000