



**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Western Buckeye Educational Service Center
Paulding County
202 North Cherry Street
PO Box 176
Paulding, Ohio 45879-0176

To the Board of Education:

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

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Western Buckeye Educational Service Center, Paulding County, Ohio, as of June 30, 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

As described in note 3 to the general-purpose financial statements, on July 1, 1998 the Paulding and Van Wert County Educational Service Centers merged to form the Western Buckeye Educational Service Center.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 1999 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

December 30, 1999

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

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS:		
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$503,018	\$90,588
Cash and Cash Equivalents:		
In Segregated Accounts		
Investments in Segregated Accounts		
Receivables:		
Intergovernmental	87,682	
Accrued Interest	5,788	
Prepaid Items	13,439	1,175
Fixed Assets		
Other Debits:		
Amount to be Provided from		
General Government Resources		
Total Assets and Other Debits	\$609,927	\$91,763
 LIABILITIES, FUND EQUITY AND OTHER CREDITS:		
Liabilities:		
Accounts Payable	\$1,809	
Accrued Wages and Benefits	278,296	\$12,537
Compensated Absences Payable	22,700	10,632
Intergovernmental Payable	21,176	455
Deferred Revenue	8,146	
Undistributed Monies		
Total Liabilities	332,127	23,624
Fund Equity and Other Credits:		
Investment in General Fixed Assets		
Fund Balance:		
Reserved for External Pool Participants		
Reserved for Individual Investment Account		
Reserved for Property Taxes		
Reserved for Encumbrances	472	
Unreserved:		
Undesignated	277,328	68,139
Total Fund Equity and Other Credits	277,800	68,139
Total Liabilities, Fund Equity and Other Credits	\$609,927	\$91,763

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	Trust and Agency	General Fixed Assets	
\$967,932			\$1,561,538
257,841			\$257,841
987,894			\$987,894
			87,682
37,286			43,074
			14,614
	\$202,541		202,541
		\$143,409	143,409
\$2,250,953	\$202,541	\$143,409	\$3,298,593

			\$1,809
			290,833
		\$134,587	167,919
		8,822	30,453
			8,146
\$3,896			3,896
3,896		143,409	503,056
	\$202,541		202,541
974,785			974,785
1,272,272			1,272,272
			472
			345,467
2,247,057	202,541		2,795,537
\$2,250,953	\$202,541	\$143,409	\$3,298,593

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues:			
Intergovernmental	\$909,040	\$252,715	\$1,161,755
Interest	33,024		33,024
Tuition and Fees	1,611,833		1,611,833
Customer Services	24,442		24,442
Miscellaneous	47,428		47,428
Total Revenues	<u>2,625,767</u>	<u>252,715</u>	<u>2,878,482</u>
Expenditures:			
Current:			
Instruction:			
Special	1,224,517	2,555	1,227,072
Support Services:			
Pupils	447,005	19,718	466,723
Instructional Staff	397,815	37,488	435,303
Board of Education	59,199	25,297	84,496
Administration	248,045	18,596	266,641
Fiscal	77,705	400	78,105
Operation and Maintenance of Plant	11,377		11,377
Central Services	1,357		1,357
Non-Instructional Services	3,700		3,700
Capital Outlay	4,000		4,000
Intergovernmental		207,333	207,333
Total Expenditures	<u>2,474,720</u>	<u>311,387</u>	<u>2,786,107</u>
Excess of Revenues Over/(Under) Expenditures	151,047	(58,672)	92,375
Fund Balances at Beginning of Year	<u>126,753</u>	<u>126,811</u>	<u>253,564</u>
Fund Balances at End of Year	<u>\$277,800</u>	<u>\$68,139</u>	<u>\$345,939</u>

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 (NON-GAAP BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Type		
	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$704,566	\$895,392	\$190,826
Interest	25,000	44,805	19,805
Tuition and Fees	1,529,801	1,569,097	39,296
Customer Services	22,227	24,442	2,215
Miscellaneous	13,404	79,615	66,211
Total Revenues	<u>2,294,998</u>	<u>2,613,351</u>	<u>318,353</u>
Expenditures:			
Current:			
Instruction:			
Regular			
Special	1,246,746	1,258,785	(12,039)
Support Services:			
Pupils	483,121	473,593	9,528
Instructional Staff	388,039	384,617	3,422
Board of Education	46,189	61,952	(15,763)
Administration	259,845	260,838	(993)
Fiscal	76,426	76,528	(102)
Operation and Maintenance of Plant	16,088	12,079	4,009
Central Services	1,340	1,125	215
Non-Instructional Services	4,095	3,700	395
Capital Outlay	4,000	4,000	
Total Expenditures	<u>2,525,889</u>	<u>2,537,217</u>	<u>(11,328)</u>
Excess of Revenues Over (Under) Expenditures	<u>(230,891)</u>	<u>76,134</u>	<u>307,025</u>
Other Financing Uses:			
Other Financing Uses	<u>(32,163)</u>		<u>32,163</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(263,054)</u>	<u>76,134</u>	<u>339,188</u>
Fund Balances at Beginning of Year	<u>425,969</u>	<u>425,969</u>	
Fund Balances at End of Year	<u>\$162,915</u>	<u>\$502,103</u>	<u>\$339,188</u>

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

Governmental Fund Type Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$236,577	\$252,715	\$16,138	\$941,143	\$1,148,107	\$206,964
			25,000	44,805	19,805
			1,529,801	1,569,097	39,296
			22,227	24,442	2,215
			13,404	79,615	66,211
<u>236,577</u>	<u>252,715</u>	<u>16,138</u>	<u>2,531,575</u>	<u>2,866,066</u>	<u>334,491</u>
1,018	803	215	1,018	803	215
92,551	82,167	10,384	1,339,297	1,340,952	(1,655)
34,939	22,346	12,593	518,060	495,939	22,121
153,124	113,256	39,868	541,163	497,873	43,290
60,407	60,407		106,596	122,359	(15,763)
56,343	52,377	3,966	316,188	313,215	2,973
9,346	2,038	7,308	85,772	78,566	7,206
			16,088	12,079	4,009
			1,340	1,125	215
1,750		1,750	5,845	3,700	2,145
			4,000	4,000	
<u>409,478</u>	<u>333,394</u>	<u>76,084</u>	<u>2,935,367</u>	<u>2,870,611</u>	<u>64,756</u>
<u>(172,901)</u>	<u>(80,679)</u>	<u>92,222</u>	<u>(403,792)</u>	<u>(4,545)</u>	<u>399,247</u>
			<u>(32,163)</u>		<u>32,163</u>
(172,901)	(80,679)	92,222	(435,955)	(4,545)	431,410
171,267	171,267		597,236	597,236	
<u>(\$1,634)</u>	<u>\$90,588</u>	<u>\$92,222</u>	<u>\$161,281</u>	<u>\$592,691</u>	<u>\$431,410</u>

**COMBINED STATEMENT OF CHANGE IN NET ASSETS
FIDUCIARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Investment Trust Funds</u>		<u>Total (Memorandum Only)</u>
	<u>External Investment Pool</u>	<u>Individual Investment Account</u>	
Revenues:			
Interest	\$46,761	\$38,795	\$85,556
Non-Operating Revenues:			
Distributions to Participants	(68,312)	(50,997)	(119,309)
Capital Transactions	(42,292)	301,335	259,043
Total Increase in Net Assets	(63,843)	289,133	225,290
Net Assets at Beginning of Year	1,038,628	983,139	2,021,767
Net Assets at End of Year	<u>\$974,785</u>	<u>\$1,272,272</u>	<u>\$2,247,057</u>

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

NOTE 1 - REPORTING ENTITY

Western Buckeye Educational Service Center (the Educational Service Center) is located in Paulding, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Antwerp, Crestview, Lincolnview, and Wayne Trace Local School Districts and the Van Wert City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

On July 1, 1998, the Paulding County Educational Service Center and Van Wert County Educational Service Center merged to create the Western Buckeye Educational Service Center. The five elected board members of each Educational Service Center formed the new Board and will serve their terms until December 31, 1999. At that time, the Educational Service Center will operate under a locally-elected Board of Education consisting of one member elected from each of the four local school districts and one member elected at-large for four year terms. The Educational Service Center has ten administrators, eighteen classified employees, and forty certified teaching personnel who provide services to the local and city school districts.

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

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

The Educational Service Center is associated with a jointly governed organization and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative (NOACSC), NOACSC Workers' Compensation Group Rating Plan, and the Van Wert Area Schools Insurance Group. Information about these organizations is presented in Notes 16 and 17 to the general-purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

Governmental Fund Types:

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

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

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

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of investment trust funds and an agency fund. Investment trust funds are accounted for on the accrual basis. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Account Groups:

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

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

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

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

B. Measurement Focus and Basis of Accounting

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

The investment trust funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, investment earnings, tuition, fees, and customer services.

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

The accrual basis of accounting is utilized for reporting purposes by the investment trust funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

C. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. For fiscal year 1999, the investment trust funds were classified as agency funds for budgetary purposes. For budgeted funds, the budget includes the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised

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

and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund and function level of expenditures for the General Fund and the fund level of expenditures for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within the General Fund must be approved by the Educational Service Center's Board. Appropriation modifications at the object level within the General Fund or at the function and object level within all other funds are made by the School District Treasurer.

The Educational Service Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except investment trust and agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

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

D. Cash and Investments

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

The Educational Service Center has a segregated bank account for the individual investment account held separate from the Educational Service Center's bank accounts. The depository account is presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Account" since it is not required to be deposited into the Educational Service Center's treasury. Investments for the individual investment account are recorded as "Investments in Segregated Account".

During fiscal year 1999, investments were limited to repurchase agreements, nonnegotiable certificates of deposit, and STAR Ohio. Repurchase agreements and nonnegotiable certificates of deposit are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 1999.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 1999 amounted to \$33,024, which includes \$8,197 assigned from other Educational Service Center funds.

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

E. Prepaid Items

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

F. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The Educational Service Center does not have any infrastructure. Assets in the general fixed assets account group are not depreciated.

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

G. Compensated Absences

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

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

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

H. Accrued Liabilities and Long-Term Obligations

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

I. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. A fund equity reserve has been established for external pool participants, the individual investment account, and encumbrances. The reserve for external pool participants represents net assets held in trust for the external portion of the pool. The reserve for the individual investment account represents monies of the VWASIG individual investment trust fund that are invested by the Educational Service Center.

J. Intergovernmental Revenues

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

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

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

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

TOPS

Education Management Information System

Merger Grant

Eisenhower

Title VI-B

Drug Free

Preschool/Handicapped

Grants and entitlements amounted to approximately 40 percent of the Educational Service Center's revenues during the 1999 fiscal year.

K. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 1999, these funds included Eisenhower, Title VI-B, and Drug Free special revenue funds.

L. Interfund Transactions

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

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Total Columns on General-Purpose Financial Statements

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

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

NOTE 3 - STATEMENT OF FUND EQUITY

The governing boards of the Paulding County Educational Service Center and the Van Wert County Educational Service Center determined that combining their operations would comply with the requirements of Am. Sub. House Bill No. 117 Section 45.32. The new organization operates as the Western Buckeye Educational Service Center and was formed on July 1, 1998. All assets and liabilities of the Paulding County and Van Wert County Educational Services Centers were assumed by the new organization.

Beginning fund equity/account group totals were as follows:

Fund Type/Fund/ Account Group	Previously Stated Balance at 6/30/98 Paulding	Previously Stated Balance at 6/30/98 Van Wert	Beginning Balance at 7/1/98
Governmental			
General	\$36,718	\$90,035	\$126,753
Special Revenue	52,902	73,909	126,811
Fiduciary			
Investment Trust	0	2,021,767	2,021,767
Account Group			
Fixed Assets	107,239	74,340	181,579
Long-Term Obligations	137,466	29,715	167,181

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 1999, the Preschool Handicapped special revenue fund had a deficit fund balance of \$667 which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following functions had expenditures in excess of appropriations for the fiscal year ended June 30, 1999.

Fund/Function	Appropriations	Expenditures	Excess
General Fund			
Special	\$1,246,746	\$1,258,785	\$12,039
Board of Education	46,189	61,952	15,763
Administration	259,845	260,838	993
Fiscal	76,426	76,528	102

The Educational Service Center did not certify the availability of funds as required by Ohio Revised Code § 5705.41(D), in some instances.

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

Although deposits of the Educational Service Center were adequately insured or collateralized at fiscal year end, there were periods during the year that deposits were not insured or collateralized as required by Ohio Revised Code Section 135.18.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

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

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

	Excess of Revenues Over (Under) Expenditures All Governmental Fund Types	
	General	Special Revenue
GAAP Basis	\$151,047	(\$58,672)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:	71,670	0
Accrued FY 1998, Received in Cash FY 1999		
Accrued FY 1999, Not Yet Received in Cash	(84,086)	0
Expenditure Accruals:	(383,580)	(45,881)
Accrued FY 1998, Paid in Cash FY 1999		
Accrued FY 1999, Not Yet Paid in Cash	322,743	23,624
Prepaid Items	(745)	250
Encumbrances Outstanding at Year End (Budget Basis)	(915)	0
Budget Basis	\$76,134	(\$80,679)

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

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$2,682,022 and the bank balance was \$2,834,883. Of the bank balance, \$500,000 was covered by federal depository insurance and \$2,334,883 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or the Educational Service Center's agent in the Educational Service 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 Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 1999, the fair value of funds on deposit with STAR Ohio was \$62,748. At June 30, 1999, the carrying amount and fair value of the repurchase agreements, a category 3 investment, were \$62,503.

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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,819,379	\$987,894
Repurchase Agreements	(62,503)	62,503
Certificates of Deposit	987,894	(987,894)
STAR Ohio	(62,748)	62,748
GASB Statement No. 3	\$2,682,022	\$125,251

NOTE 7 - INVESTMENT POOL AND INDIVIDUAL INVESTMENT ACCOUNT

Investment Pool

The Educational Service Center serves as fiscal agent for the Northwest Ohio Area Computer Services Cooperative (NOACSC), a legally separate entity. The Educational Service Center pools the monies of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns.

Individual Investment Account

The Educational Service Center also serves as fiscal agent for the Van Wert Area Schools Insurance Group (VWASIG), a legally separate entity. The Educational Service Center acquires specific investments on behalf of the VWASIG. Investments are limited to certificates of deposit and repurchase agreements which are valued at cost and included as cash and cash equivalents in segregated accounts and investments in segregated accounts on the accompanying financial statements. All interest on these investments accrues to the benefit of the VWASIG. The individual investment account is not registered with the SEC as an investment company. The fair value of investments is determined annually.

The carrying amounts and fair value for both the internal and external portions of the investment pool and the individual investment account are disclosed in Note 6 - Deposits and Investments.

Condensed financial information for the investment pool follows:

Statement of Net Assets June 30, 1999	
	Investment Pool
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,561,538
Accrued Interest Receivable	16,537
Total Assets	\$1,578,075

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

	Investment Pool
<u>Net Assets Held in Trust for Pool Participants:</u>	
Pool Participants:	
Internal Portion	\$603,290
External Portion	974,785
	\$1,578,075
Total Net Assets Held in Trust for Pool Participants	\$1,578,075

Statement of Changes in Net Assets For the Fiscal Year Ended June 30, 1999	
	Investment Pool
<u>Revenues:</u>	
Interest	\$79,785
<u>Expenses:</u>	
Operating Expenses	0
Net Increase in Assets Resulting from Operations	79,785
Distribution to Participants	(113,117)
Capital Transactions	(49,658)
Total Increase (Decrease) in Net Assets	(82,990)
Net Assets at Beginning of Year	1,661,065
Net Assets at End of Year	\$1,578,075

At fiscal year end, the carrying amount of the pool's deposits was \$1,498,790 and the bank balance was \$1,656,229. Of the bank balance, \$321,134 was covered by federal depository insurance and \$1,294,095 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC. At June 30, 1999, the carrying amount and fair value of the STAR Ohio was \$62,748.

NOTE 8 - STATE FUNDING

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

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

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

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

NOTE 9 - RECEIVABLES

Receivables at June 30, 1999, consisted of intergovernmental and accrued interest receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Excess Cost	\$59,056
Community Alternative Funding	16,429
Other School Districts	12,197
Total Intergovernmental Receivables	\$87,682

NOTE 10 - FIXED ASSETS

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

Asset Category	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Land	\$5,400	\$0	\$0	\$5,400
Building and Improvements	54,600	0	0	54,600
Furniture, Fixtures, and Equipment	121,579	30,760	9,798	142,541
Total	\$181,579	\$30,760	\$9,798	\$202,541

NOTE 11 - RISK MANAGEMENT

The Educational Service 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. During fiscal year 1999, the Educational Service Center contracted for the following insurance coverages:

Coverages provided by Cincinnati Insurance Company	
Commercial Property	\$80,000
Office Equipment	110,000
Commercial General Liability	1,000,000

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

Coverages provided by Nationwide Insurance Company	
General Liability	
Per Occurrence	2,000,000
Total per Year	5,000,000
Auto - Non-Owners Liability	2,000,000

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

For fiscal year 1999, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

The Educational Service Center participates in the Van Wert Area Schools Insurance Group (VWASIG). VWASIG is a public entity shared risk pool consisting of five members. The Educational Service Center pays monthly premiums to VWASIG for employee medical, dental, and life insurance benefits. VWASIG is responsible for the management and operation of the program. Upon withdrawal from VWASIG, a member is responsible for the payment of all VWASIG liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost of living adjustments, and death benefits 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 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal year ended June 30, 1999 was \$91,691; 100 percent has been contributed for this fiscal year.

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

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. 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 Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 7.7 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 9.02 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 Educational Service Center's required contribution for pension obligations to SERS for the fiscal year ended June 30, 1999 was \$24,286; 100 percent has been contributed for this fiscal year.

C. Social Security System

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$122,255 for fiscal year 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 (the latest information available). For the fiscal year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000, and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-

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

five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$28,693.

The surcharge, added to the unallocated portion of 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.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty days for employees with less than ten years of service, and a maximum of fifty days for employees with ten or more years of service.

Upon the merger of Paulding and Van Wert Educational Service Centers, certain employees accumulated sick leave balances exceeded one hundred eighty days. For these employees, the maximum sick leave accrual is being maintained at their balance upon the merger.

B. Health Care Benefits

The Educational Service Center participates in the Van Wert Area Schools Insurance Group (VWASIG) for all employee health care benefits. Through VWASIG, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 15 - LONG-TERM OBLIGATIONS

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

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

	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Compensated Absences Payable	\$158,367	\$0	\$23,780	\$134,587
Intergovernmental Payable	8,814	8,822	8,814	8,822
Total	<u>\$167,181</u>	<u>\$8,822</u>	<u>\$32,594</u>	<u>\$143,409</u>

Compensated absences and intergovernmental payables, representing the Educational Service Center's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

NOTE 16 - JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

NOTE 17 - INSURANCE POOLS

A. NOACSC Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (the Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz, of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Van Wert Area Schools Insurance Group

The Van Wert Area Schools Insurance Group (VWASIG) is a public entity shared risk pool consisting of five members. VWASIG is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each member appoints a representative to the Board of Trustees. The Board of Trustees is the legislative and managerial body of VWASIG. Financial information can be obtained from the Western Buckeye Educational Service Center, who serves as fiscal agent, 202 North Cherry Street, P.O. Box 176, Paulding, Ohio 43879.

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

NOTE 18 - SCHOOL FUNDING PROGRAM

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 monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$839,679 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 reviewing 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 the date of these financial statements, 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 Court of Common Pleas declared unconstitutional.

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

NOTE 19 - YEAR 2000 ISSUE

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Educational Service Center's operations.

The Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are necessary for conducting the Educational Service Center's operations. The Educational Service Center has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting.

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems and is solely responsible for any costs associated with this project.

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

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

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

NOTE 20 - CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Western Buckeye Educational Service Center
Paulding County
202 North Cherry Street
PO Box 176
Paulding, Ohio 45879-0176

To the Board of Education:

We have audited the accompanying financial statements of the Western Buckeye Educational Service Center, Paulding County, Ohio (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 30, 1999, in which we disclosed that on July 1, 1998 the Paulding and Van Wert County Educational Service Centers merged to form the Western Buckeye Educational Service Center. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-10263-001 and 1999-10263-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated December 30, 1999.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which do not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated December 30, 1999.

This report is intended for the information and use of 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

December 30, 1999

**SCHEDULE OF FINDINGS
JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-10263-001

Noncompliance Citation

Ohio Revised Code § 135.18 states the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

Although deposits were properly protected at fiscal year end, at the following dates and by the amounts indicated the Educational Service Center's deposits were not insured or collateralized:

<u>Date</u>	<u>Amount not insured or collateralized</u>
July 31, 1998	\$606,561
August 31, 1998	632,542
September 30, 1998	412,342
October 31, 1998	343,605
November 30, 1998	223,515
December 31, 1998	203,002
January 31, 1999	120,910
February 28, 1999	321,296
March 31, 1999	359,437
April 30, 1999	364,613
May 31, 1999	413,286

It is recommended that the Treasurer and Board monitor deposits and collateral and either request additional collateral when necessary or deposit a portion of the Educational Service Center's funds in another financial institution.

FINDING NUMBER 1999-10263-002

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the purchase order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, the Board may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000, the fiscal officer may authorize it to be paid without the affirmation of the Board, if such expenditure is otherwise valid.

Thirty-seven percent of the transactions tested did not include prior certification of the Treasurer.

This procedure is not only required by Ohio law but is also a key control in the disbursement process to help assure that purchase commitments receive prior approval and to help reduce the possibility of the Educational Service Center's funds being over expended.

To improve controls over disbursements it is recommended that all the Educational Service Center's disbursements receive prior certification of the Treasurer and that the Board periodically review the expenditures made to ensure they are properly certified by the Treasurer and recorded against appropriations.



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OFFICE OF THE AUDITOR

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WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER

PAULDING 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**