



**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenue, Expenditures, and Changes in Fund Equity - Governmental Fund Types	7
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget (Non-GAAP Basis) and Actual - Governmental Fund Types	8
Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Fund Type	10
Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type	11
Statement of Cash Flows - Proprietary Fund Type	12
Notes to the General Purpose Financial Statements	13
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	31

This Page Intentionally Left Blank



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall, Suite B
Athens, Ohio 45701

Telephone 740-594-3300
800-441-1389

Facsimile 740-594-2110

REPORT OF INDEPENDENT ACCOUNTANTS

Belmont County Educational Service Center
Belmont County
410 Fox Shannon Place
St. Clairsville, Ohio 43950

To Members of the Board:

We have audited the accompanying general purpose financial statements of the Belmont County Educational Service Center, Belmont 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 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 Belmont County Educational Service Center, Belmont County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2000, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

JIM PETRO
Auditor of State

January 11, 2000

This Page Intentionally Left Blank

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

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>
ASSETS AND OTHER DEBITS:			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$161,966	\$20,397	
Cash with Fiscal Agents			12,436
Intergovernmental Receivable	171,695	1,775	
Prepaid Items	13,183	58	
Fixed Assets			
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debit	<u>\$346,844</u>	<u>\$22,230</u>	<u>\$12,436</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$6,960		
Accrued Wages and Benefits	106,200	4,175	
Compensated Absences Payable	4,491		
Intergovernmental Payable	18,005	815	
Deferred Revenue	82,458		
Claims Payable			2,087
Total Liabilities	<u>218,114</u>	<u>4,990</u>	<u>2,087</u>
Equity and Other Credit:			
Investment in General Fixed Assets			
Retained Earnings - Unreserved			10,349
Fund Balances:			
Reserved for Encumbrances	107		
Unreserved, Undesignated	128,623	17,240	
Total Equity and Other Credits	<u>128,730</u>	<u>17,240</u>	<u>10,349</u>
Total Liabilities, Equity and Other Credit	<u>\$346,844</u>	<u>\$22,230</u>	<u>\$12,436</u>

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

<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Total (Memorandum Only)</u>
		\$182,363
		12,436
		173,470
		13,241
48,681		48,681
	103,311	103,311
<u>\$48,681</u>	<u>\$103,311</u>	<u>\$533,502</u>
		\$6,960
		110,375
	102,774	107,265
	537	19,357
		82,458
		2,087
	103,311	328,502
48,681		48,681
		10,349
		107
		145,863
48,681		205,000
<u>\$48,681</u>	<u>\$103,311</u>	<u>\$533,502</u>

This Page Intentionally Left Blank

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental	\$845,212	\$62,570	\$907,782
Interest	6,732		6,732
Charges for Services	373,734		373,734
Miscellaneous	3,734	6,125	9,859
	<u>1,229,412</u>	<u>68,695</u>	<u>1,298,107</u>
Total Revenues			
	<u>1,229,412</u>	<u>68,695</u>	<u>1,298,107</u>
Expenditures:			
Current:			
Instruction:			
Regular	671	16,047	16,718
Special	279,049	38,645	317,694
Other	58,808		58,808
Support Services:			
Pupils	264,497		264,497
Instructional Staff	314,879	2,984	317,863
Board of Education	10,583		10,583
Administration	229,777	6,851	236,628
Fiscal	45,028	992	46,020
Pupil Transportation	4,105		4,105
Central		4,292	4,292
Extracurricular Activities	21,052		21,052
Operation of Non-Instructional Services		11,556	11,556
	<u>1,228,449</u>	<u>81,367</u>	<u>1,309,816</u>
Total Expenditures			
	<u>1,228,449</u>	<u>81,367</u>	<u>1,309,816</u>
Excess of Revenues Over (Under) Expenditures	963	(12,672)	(11,709)
Fund Balances at Beginning of Year (Restated - Note 3)	<u>127,767</u>	<u>29,912</u>	<u>157,679</u>
Fund Balances at End of Year	<u>\$128,730</u>	<u>\$17,240</u>	<u>\$145,970</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 (NON-GAAP BASIS) AND ACTUAL
GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	General			Special Revenue Funds		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$648,600	\$812,943	\$164,343	\$85,601	\$89,203	\$3,602
Interest	4,900	6,732	1,832			
Charges for Services	476,931	367,929	(109,002)			
Miscellaneous	9,289	814	(8,475)	4,264	4,222	(42)
Total Revenues	1,139,720	1,188,418	48,698	89,865	93,425	3,560
Expenditures:						
Current:						
Instruction:						
Regular	8,486	671	7,815	27,341	21,751	5,590
Special	317,425	258,622	58,803	43,564	36,922	6,642
Other	62,519	60,768	1,751			
Support Services:						
Pupils	285,801	261,950	23,851			
Instructional Staff	305,097	303,859	1,238	4,851	2,984	1,867
Board of Education	11,641	10,595	1,046			
Administration	237,011	227,001	10,010	7,134	6,851	283
Fiscal	48,997	44,921	4,076	5,616	1,459	4,157
Pupil Transportation	5,815	4,105	1,710			
Central				5,187	4,292	895
Extracurricular Activities	23,630	20,941	2,689			
Operation of Non-Instructional Services				12,000	11,677	323
Total Expenditures	1,306,422	1,193,433	112,989	105,693	85,936	19,757
Excess of Revenues over/ (under) Expenditures	(166,702)	(5,015)	161,687	(15,828)	7,489	23,317
Other Financing Sources/(Uses):						
Other Financing Sources				2,500	1,903	(597)
Refund of Prior Year Expenditures		714	714			
Advances In		1,792	1,792			
Operating Transfers Out				(142)		142
Advances Out					(1,792)	(1,792)
Total Other Financing Sources/(Uses)		2,506	2,506	2,358	111	(2,247)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(166,702)	(2,509)	164,193	(13,470)	7,600	21,070
Fund Balance at July 1	164,340	164,340		12,797	12,797	
Prior Year Encumbrances Appropriated	27	27				
Fund Balance at June 30	(\$2,335)	\$161,858	\$164,193	(\$673)	\$20,397	\$21,070

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

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$734,201	\$902,146	\$167,945
4,900	6,732	1,832
476,931	367,929	(109,002)
13,553	5,036	(8,517)
<u>1,229,585</u>	<u>1,281,843</u>	<u>52,258</u>
35,827	22,422	13,405
360,989	295,544	65,445
62,519	60,768	1,751
285,801	261,950	23,851
309,948	306,843	3,105
11,641	10,595	1,046
244,145	233,852	10,293
54,613	46,380	8,233
5,815	4,105	1,710
5,187	4,292	895
23,630	20,941	2,689
12,000	11,677	323
<u>1,412,115</u>	<u>1,279,369</u>	<u>132,746</u>
<u>(182,530)</u>	<u>2,474</u>	<u>185,004</u>
2,500	1,903	(597)
	714	714
	1,792	1,792
(142)		142
	(1,792)	(1,792)
<u>2,358</u>	<u>2,617</u>	<u>259</u>
(180,172)	5,091	185,263
177,137	177,137	
27	27	
<u>(\$3,008)</u>	<u>\$182,255</u>	<u>\$185,263</u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND EQUITY - PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Internal Service
Operating Revenue:	
Charges for Services	\$43,004
Total Operating Revenue	43,004
Operating Expenses:	
Purchased Services	1,616
Claims	34,129
Total Operating Expenses	35,745
Operating Income	7,259
Non-Operating Revenue:	
Interest	847
Total Non-Operating Revenue	847
Net Income	8,106
Retained Earnings at Beginning of Year	2,243
Retained Earnings at End of Year	\$10,349

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Internal Service Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance: Favorable (Unfavorable)</u>
Revenues:			
Charges for Services	\$38,933	\$43,004	\$4,071
Interest	712	847	135
	<u>39,645</u>	<u>43,851</u>	<u>4,206</u>
Expenses:			
Purchases Services	1,616	1,616	
Claims	36,280	39,133	(2,853)
	<u>37,896</u>	<u>40,749</u>	<u>(2,853)</u>
Excess of Revenues Over Expenses	1,749	3,102	1,353
Fund Equity at July 1	<u>9,334</u>	<u>9,334</u>	
Fund Equity at June 30	<u>\$11,083</u>	<u>\$12,436</u>	<u>\$1,353</u>

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

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Proprietary Fund Type
	Internal Service
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Quasi-External Transactions with Other Funds	\$43,004
Cash Payments to Suppliers for Goods and Services	(1,616)
Cash Payments for Claims	(39,133)
	2,255
Net Cash Provided by Operating Activities	2,255
Cash Flows from Investing Activities:	
Interest	847
	847
Net Cash Provided by Investing Activities	847
Net Increase in Cash with Fiscal Agents	3,102
Cash with Fiscal Agents at Beginning of Year	9,334
	9,334
Cash with Fiscal Agents at End of Year	\$12,436
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$7,259
	\$7,259
Adjustments to Reconcile Operating Income to to Net Cash Provided by Operating Activities:	
Change in Assets and Liabilities:	
Decrease in Claims Payable	(5,004)
	(5,004)
Total Adjustments	(5,004)
Net Cash Used for Operating Activities	\$2,255

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION

The Belmont County Educational Service Center (the "Educational Service Center") is located in St. Clairsville, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Barnesville Exempted Village, Bellaire City, St. Clairsville-Richland City, Union Local, Shadyside Local, Bridgeport Exempted Village, and Martins Ferry City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Belmont County Educational Service Center operates under a locally elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service center has 8 support staff employees and 20 certified teaching personnel that provide services to the local, city, and exempted village school districts.

A. Reporting Entity

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

1. Component Units

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. No separate governmental units meet the criteria for inclusion as a component unit.

2. Jointly Governed Organizations

The Educational Service Center is involved with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) and the Belmont-Harrison Vocational School which are defined as jointly governed organizations, the Ohio School Boards Association Workers' Compensation Group Rating Plan which is defined as a group insurance purchasing pool, and the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which is defined as a claims servicing pool. Additional information concerning the jointly governed organizations is presented in note 14, and information concerning the group insurance purchasing pool and the claims servicing pool is presented in note 15.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

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

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

1. 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 (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

General Fund

This 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

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

2. Proprietary Fund Type:

These funds are used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund

This fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

3. Account Groups:

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

The proprietary fund type is accounted for on 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. Fund equity (i.e., net total assets) is segregated into retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., 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 funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary fund type. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

C. Budgetary Data

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

Funding Budget

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

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

Appropriations

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds, including the proprietary fund, are maintained in this account or temporarily used to purchase short term investments. 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 balance sheet. The Educational Service Center participates in the OME-RESA insurance consortium for self-insurance. This money is held separate from the Educational Service Center's central bank account and is reflected in the financial statements as "Cash with Fiscal Agents".

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$6,732, which includes \$482 assigned from other Educational Service Center funds. Interest income earned during 1999 amounted to \$7,579 for the Educational Service Center.

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

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. For the fiscal year ended June 30, 1999, there were no amounts for materials and supplies inventory reflected in the Educational Service Center's financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

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

G. Fixed Assets and Depreciation

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

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. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are not depreciated.

H. Intergovernmental Revenues

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

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

Entitlements

General Fund
State Funding

Non-Reimbursable Grants

Special Revenue Funds
Education Management Information Systems
Special Education - Preschool Grants
Dwight D. Eisenhower Math/Science Grant (Title II)
National School Lunch Program
National School Breakfast Program
Child Care Food Program

Grants and entitlements amounted to 70 percent of governmental fund revenue during the 1999 fiscal year.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets. During fiscal year 1999, the Educational Service Center had no transactions resulting in interfund assets or liabilities.

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

L. Interfund Transactions

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for 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. Fund equity reserves are established for encumbrances.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

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

3. RESTATED FUND BALANCES

For fiscal year 1999, beginning balances have been increased in the General Fund and the Preschool Grant Special Revenue Fund in the amounts of \$3,315 and \$209, respectively. These restatements are the result of omissions of reversing entries for fiscal year 1998. Prior period adjustments have been made to restate beginning balances to \$127,767 and \$29,912, respectively.

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 - Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non GAAP Basis) and Actual - Proprietary Fund Type are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).

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

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

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER/(UNDER) EXPENDITURES AND OTHER FINANCING USES
GOVERNMENTAL FUND TYPES**

	<u>General</u>	<u>Special Revenue</u>
GAAP Basis	\$963	(\$12,672)
Adjustments:		
Net adjustment for revenue accruals	(40,280)	26,633
Net adjustment for expenditure accruals	35,124	(4,569)
Advance In	1,792	0
Advance Out	0	(1,792)
Encumbrances	<u>(108)</u>	<u>0</u>
Budget Basis	<u>(\$2,509)</u>	<u>\$7,600</u>

**NET INCOME/EXCESS OF REVENUES OVER EXPENSES
PROPRIETARY FUND TYPE**

	<u>Internal Service</u>
GAAP Basis	\$8,106
Net Expense Accruals	<u>(5,004)</u>
Budget Basis	<u>\$3,102</u>

5. EQUITY IN POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demand 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

5. EQUITY IN POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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 two years from the date of deposit, or by savings accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) of (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);
7. Certain bankers' acceptance 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 moneys available for investment at any one time; and,

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 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

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

5. EQUITY IN POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash with Fiscal Agent: At June 30, 1999, the Educational Service Center's internal service fund had a cash balance of \$12,436 with OME-RESA, a jointly governed organization (See Note 14). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Deposits: At year end the carrying amount of the Educational Service Center's deposits was \$141,364 and the bank balance was \$156,180. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$56,180 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center of 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 in the counter party'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 counter party, or by its trust department or agent but not in the Educational Service Center's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The Educational Service Center's investment in STAR Ohio has a market value of \$40,999.

The classification of "Equity of Pooled Cash and Cash Equivalents" on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents on the combined financial statements and the classifications per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$182,363	
STAR Ohio	<u>(40,999)</u>	<u>40,999</u>
GASB Statement No. 3	<u><u>\$141,364</u></u>	<u><u>\$40,999</u></u>

6. STATE FUNDING

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

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

6. STATE FUNDING (Continued)

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

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

7. RECEIVABLES

Receivables at June 30, 1999, consisted of excess costs, intergovernmental grants and reimbursements from the member school districts. 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 intergovernmental receivables follows:

Fund/Description	Amount
<u>General Fund</u>	
Positive Education Program	\$ 11,680
Foundation Adjustment	3,771
Excess Costs and Reimbursements from Member School District's	156,244
 <u>Special Revenue Fund</u>	
National School Lunch Program	1,775
 Total Intergovernmental Receivables	 <u><u>\$ 173,470</u></u>

8. FIXED ASSETS

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

	Balance at 07/01/98	Additions	Deletions	Balance at 06/30/98
Furniture, Fixtures, and Equipment	<u>\$42,817</u>	<u>\$5,864</u>	<u>\$0</u>	<u>\$48,681</u>

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

9. 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 with Nationwide Insurance for fleet insurance, contents insurance, and liability insurance. Coverages provided by Nationwide Insurance are as follows:

A. Property and Liability

Automobile Liability (\$100 deductible)	\$500,000
Contents	40,000
General Liability	
Per occurrence	1,000,000
Total per year - aggregate	1,000,000

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

B. Worker's Compensation

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

C. Self Insurance

Prescription, vision, life, and dental insurance is offered to employees through a self-insurance internal service fund. The Educational Service Center is a member of the OME-RESA claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$2,087 reported in the internal service fund at June 30, 1999, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the increased claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at 07/01	Current Year Claims	Claims Payments	Balance at 06/30
1998	\$3,816	\$33,561	\$30,286	\$7,091
1999	7,091	34,129	39,133	2,087

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

10. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal year ended June 30, 1999, 1998, and 1997 were \$44,729, \$59,577, and \$62,222, respectively; 76.0 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$10,614 representing the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered payroll was the portion to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$12,350, \$9,503, and \$9,435, respectively; 86.0 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$1,756 representing 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 School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

11. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, and increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$59,639 during 1999.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount contributed is allocated to providing health care benefits. For the Educational Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$10,642.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

1. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws.

Administrative and classified employees can earn seven and one-half to twenty days of vacation per fiscal year, depending upon length of service and their position held. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

12. EMPLOYEE BENEFITS (Continued)

1. Compensated Absences (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified employees and certified employees.

B. Medical Insurance

The Educational Service Center has elected to provide employee medical/surgical benefits through Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with the employees depending on the terms of the union contract.

13. LONG-TERM OBLIGATIONS

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

	Balance at 07/01/98	Additions	Deletions	Balance at 06/30/99
Compensated Absences	\$84,645	\$27,339	\$9,210	\$102,774
Intergovernmental Payables	1,412	537	1,412	537
Total General Long-Term Obligations	<u>\$86,057</u>	<u>\$27,876</u>	<u>\$10,622</u>	<u>\$103,311</u>

Compensated absences and the intergovernmental payable will be paid from the fund from which the employees' salaries are paid.

14. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid Eastern Regional Educational Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information system, and cooperative purchasing services to member districts. OME-RESA possesses its own budgeting authority. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. Belmont-Harrison Vocational School

The Belmont-Harrison Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of up to two representatives from each of the participating school districts' and the Belmont County Educational Service Center's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, who serves as Treasurer, at 110 Fox-Shannon Road, St. Clairsville, Ohio 43950.

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

15. PUBLIC ENTITY POOLS

A. Insurance Purchasing Pool

1. Ohio School Boards Association Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the 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. Claims Servicing Pool

1. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. The Plan's business affairs are conducted by a nine member Board of Directors elected from OME-RESA's assembly. Each participant is a member of the assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

16. 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

The Educational Service Center is currently not party to legal proceedings.

17. YEAR 2000

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 as early as fiscal year 1999.

The Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting operations. The Educational Service Center has identified such systems as being financial reporting, payroll and employee benefits.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

17. YEAR 2000 (Continued)

Entities that Make Significant Intergovernmental Payments to the Educational Service Center. The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of foundation payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through EMIS. The State is responsible for remediating these systems.

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.

18. SCHOOL FUNDING COURT 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 Ohio General Assembly 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 the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$853,382 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly legislature in an attempt to address the issues by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion of this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall, Suite B
Athens, Ohio 45701

Telephone 740-594-3300
800-441-1389

Facsimile 740-594-2110

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

Belmont County Educational Service Center
Belmont County
410 Fox Shannon Place
St. Clairsville, Ohio 43950

To Members of the Board:

We have audited the general purpose financial statements of the Belmont County Educational Service Center, Belmont County, Ohio (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 11, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management of the Educational Service Center in a separate letter date January 11, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose 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 the management of the Educational Service Center in a separate letter dated January 11, 2000.

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

January 11, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

EDUCATIONAL SERVICE CENTER

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2000**