



**HANCOCK EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Hancock County Educational Service Center
7746 County Road 140
Findlay, Ohio 45840-1817

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 1998, 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 Hancock County Educational Service Center, Hancock County, as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in note 3 to the general-purpose financial statements, during fiscal year 1998 the Educational Service Center changed its method of accounting for investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2000, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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



Jim Petro
Auditor of State

February 28, 2000

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 1998**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS:		
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 338,416	\$ 58,200
Receivables:		
Accounts	26	
Intergovernmental	10,315	
Materials and Supplies Inventory	3,803	
Prepaid Items	4,963	369
Funds on Deposit with Deferred Compensation Boards		
Fixed Assets		
Other Debits:		
Amount to be Provided from		
General Government Resources		
Total Assets and Other Debits	\$ 357,523	\$ 58,569
 LIABILITIES, FUND EQUITY AND OTHER CREDITS:		
Liabilities:		
Accounts Payable	\$ 3,880	\$ 218
Accrued Wages and Benefits	117,646	12,680
Compensated Absences Payable	23,822	3,472
Intergovernmental Payable	193,366	19,178
Due to Students		
Deffered Compensation Payable		
 Total Liabilities	 338,714	 35,548
Fund Equity and Other Credits:		
Investment in General Fixed Assets		
Net Assets Held in Trust for Pool Participants		
Fund Balance:		
Reserved for Inventory	3,803	
Reserved for Encumbrances	3,407	1,013
Unreserved, Undesignated	11,599	22,008
 Total Fund Equity and Other Credits	 18,809	 23,021
Total Liabilities, Fund Equity and Other Credits	\$ 357,523	\$ 58,569

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	
\$ 249,840	\$ 0	\$ 0	\$ 646,456
			26
			10,315
			3,803
			5,332
2,823			2,823
	212,836		212,836
		53,639	53,639
\$ 252,663	\$ 212,836	\$ 53,639	\$ 935,230

\$ 0	\$ 0	\$ 0	\$ 4,098
			130,326
		53,639	80,933
			212,544
1,435			1,435
2,823			2,823
4,258	0	53,639	432,159
	212,836		212,836
248,405			248,405
			3,803
			4,420
			33,607
248,405	212,836	0	503,071
\$ 252,663	\$ 212,836	\$ 53,639	\$ 935,230

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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, 1998**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues:			
Intergovernmental	\$ 1,709,608	\$ 364,034	\$ 2,073,642
Interest	15,194		15,194
Tuition and Fees	39,011		39,011
Gifts and Donations	3,229	605	3,834
Customer Services	494,712		494,712
Miscellaneous	15,872		15,872
Total Revenues	2,277,626	364,639	2,642,265
Expenditures:			
Current:			
Instruction:			
Regular	88,250	1,635	89,885
Special	517,531	6,302	523,833
Support Services:			
Pupils	587,523		587,523
Instructional Staff	812,722	8,479	821,201
Board of Education	11,242	500	11,742
Administration	166,015		166,015
Fiscal	90,440		90,440
Business	7,129		7,129
Operation and Maintenance of Plant	17,740		17,740
Pupil Transportation	1,565		1,565
Central Services	524		524
Non-Instructional Services	2,324	71,421	73,745
Intergovernmental		267,250	267,250
Total Expenditures	2,303,005	355,587	2,658,592
Excess of Revenues Over/(Under) Expenditures	(25,379)	9,052	(16,327)
Fund Balances at Beginning of Year	45,505	13,969	59,474
Decrease in Reserve for Inventory	(1,317)		(1,317)
Fund Balances at End of Year	\$ 18,809	\$ 23,021	\$ 41,830

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, 1998**

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 1,568,605	\$ 1,705,865	\$ 137,260
Interest	12,000	15,194	3,194
Tuition and Fees	24,100	38,362	14,262
Gifts and Donations	1,875	3,229	1,354
Customer Services	475,174	515,871	40,697
Miscellaneous	700	501	(199)
Total Revenues	<u>2,082,454</u>	<u>2,279,022</u>	<u>196,568</u>
Expenditures:			
Current:			
Instruction:			
Regular	99,124	85,633	13,491
Special	532,185	513,383	18,802
Support Services:			
Pupils	566,267	564,327	1,940
Instructional Staff	815,585	802,505	13,080
Board of Education	13,895	11,232	2,663
Administration	161,130	168,347	(7,217)
Fiscal	96,500	91,677	4,823
Business	7,400	7,129	271
Operation and Maintenance of Plant	19,775	19,090	685
Pupil Transportation	1,600	1,565	35
Central Services	2,700	780	1,920
Non-Instructional Services	3,000	2,333	667
Total Expenditures	<u>2,319,161</u>	<u>2,268,001</u>	<u>51,160</u>
Excess of Revenues Over (Under) Expenditures	<u>(236,707)</u>	<u>11,021</u>	<u>247,728</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures		11,462	11,462
Advances In		7,500	7,500
Advances Out			
Total Other Financing Sources (Uses)	<u>0</u>	<u>18,962</u>	<u>18,962</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(236,707)</u>	<u>29,983</u>	<u>266,690</u>
Fund Balances at Beginning of Year	275,611	275,611	0
Prior Year Encumbrances Appropriated	17,874	17,874	0
Fund Balances at End of Year	<u>\$ 56,778</u>	<u>\$ 323,468</u>	<u>\$ 266,690</u>

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

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 372,751	\$ 364,034	\$ (8,717)	\$ 1,941,356	\$ 2,069,899	\$ 128,543
			12,000	15,194	3,194
			24,100	38,362	14,262
500	605	105	2,375	3,834	1,459
			475,174	515,871	40,697
			700	501	(199)
<u>373,251</u>	<u>364,639</u>	<u>(8,612)</u>	<u>2,455,705</u>	<u>2,643,661</u>	<u>187,956</u>
39,879	25,955	13,924	139,003	111,588	27,415
45,952	40,113	5,839	578,137	553,496	24,641
97,584	86,168	11,416	663,851	650,495	13,356
122,756	102,088	20,668	938,341	904,593	33,748
500	500	0	14,395	11,732	2,663
29,004	25,400	3,604	190,134	193,747	(3,613)
800	800	0	97,300	92,477	4,823
			7,400	7,129	271
			19,775	19,090	685
			1,600	1,565	35
			2,700	780	1,920
93,012	69,395	23,617	96,012	71,728	24,284
<u>429,487</u>	<u>350,419</u>	<u>79,068</u>	<u>2,748,648</u>	<u>2,618,420</u>	<u>130,228</u>
<u>(56,236)</u>	<u>14,220</u>	<u>70,456</u>	<u>(292,943)</u>	<u>25,241</u>	<u>318,184</u>
			0	11,462	11,462
			0	7,500	7,500
(7,500)	(7,500)	0	(7,500)	(7,500)	0
(7,500)	(7,500)	0	(7,500)	11,462	18,962
(63,736)	6,720	70,456	(300,443)	36,703	337,146
47,119	47,119	0	322,730	322,730	0
3,103	3,103	0	20,977	20,977	0
<u>\$ (13,514)</u>	<u>\$ 56,942</u>	<u>\$ 70,456</u>	<u>\$ 43,264</u>	<u>\$ 380,410</u>	<u>\$ 337,146</u>

**STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>Investment Trust Fund</u>
Revenues:	
Interest Income	\$ 15,367
Operating Expenses:	
Administration	<u>0</u>
Net Increase in Assets Resulting from Operations	<u>15,367</u>
Capital Transactions	966
Distributions to Participants	<u>(15,367)</u>
Net Increase in Assets	966
Net Assets at Beginning of Year	<u>247,439</u>
Net Assets at End of Year	<u><u>\$ 248,405</u></u>

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998

1. REPORTING ENTITY

The Hancock County Educational Service Center (the Educational Service Center) is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Van Buren, and Vanlue Local School Districts and the Findlay 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.

The Hancock County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, twenty-five classified employees, and forty-five certified teaching personnel that provide services to 11,534 students from 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 Hancock County Educational Service Center, this includes general operations and student-related activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the 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. The Educational Service Center has no component units.

The Educational Service Center is associated with one jointly governed organization and two insurance pools. These organizations are the Blanchard Valley Cooperative Vocational Career Center, NOACSC Workers' Compensation Group Rating Plan, and the Hancock County Schools Health Benefit Fund and Trust. Information about these organizations is presented in Notes 16 and 17 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

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.

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 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.

2. 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 an investment trust fund and agency funds. Investment trust funds are accounted for on the accrual basis. Agency funds, which are custodial in nature (assets equal liabilities), do not involve measurement of results of operations.

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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

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 fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statement of this fund presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental fund types and agency 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: 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 fund. 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 investment trust and agency funds, on or before the start of the new fiscal year. For fiscal year 1998, the investment trust fund was classified as an agency fund 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 and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. Both the estimated

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

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 local 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.

1. 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 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 a fund, or alter object appropriations within functions must be approved by the Educational Service Center's Board.

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.

2. 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.

3. 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, 1998
(Continued)

D. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through 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.

During fiscal year 1998, investments were limited to STAR Ohio and Ohio Deferred Compensation. The investment in Ohio Deferred Compensation is valued at market. 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, 1998.

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 1998 amounted to \$15,194, which includes \$4,383 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, 1998, 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. Materials and Supplies Inventory

Inventory in the governmental funds is stated at cost. Cost is determined on a first-in, first-out basis. Materials and supplies inventory consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditures when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

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 value as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

Assets in the general fixed assets account group are not depreciated. The Educational Service Center does not have any infrastructure.

H. 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 after ten 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. 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.

I. 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 that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are considered not to have used current available financial resources.

J. 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. A fund equity reserve has been established for inventory and encumbrances.

K. 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, 1998
(Continued)

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Early Intervention

TOPS

Gifted Model Project

Education Management Information Systems

Eisenhower

Title VI-B

Drug Free

Early Childhood Preschool

Grants and entitlements amounted to approximately 78 percent of the Educational Service Center's revenues during the 1998 fiscal year.

L. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 1998, these funds included Eisenhower, Title VI-B, Drug Free, and Early Childhood Preschool special revenue funds. Grants in which the Educational Service Center has no financial or administrative role and are passed through to the local school districts in the County are reported in an agency fund.

M. 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.

N. 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.

O. 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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1998, the Educational Service Center has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools". This statement established accounting and reporting guidelines for government investments and investment pools. Under this statement, certain investments are reported at fair value.

The implementation of GASB Statement No. 31 required the presentation in the financial statements of an investment trust fund. This fund had previously been reported as an agency fund. The reclassification of the fund to the fiduciary fund type increased net assets by \$247,439 from a total of \$0 as it was previously reported as of June 30, 1997. As a result of the reclassification of the fund, agency fund assets and liabilities decreased from \$248,895 to \$1,456 as of June 30, 1997.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 1998, the Early Intervention, Drug Free, and Early Childhood Preschool special revenue funds had a deficit fund balance of \$2,788, \$59, and \$337, respectively, 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 Educational Service Center did not certify all expenditures as required by Ohio Revised Code § 5705.41(D).

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 1998:

Fund Type/Fund/ Function/Object	Appropriations	Expenditures	Excess
General Fund			
Special			
Materials and Supplies	\$ 15,900	\$ 16,151	\$ 251
Capital Outlay - New	17,200	17,641	441
Pupils			
Materials and Supplies	8,101	9,475	1,374
Instructional Staff			
Capital Outlay - New	15,000	17,756	2,756
Administration			
Purchased Services	14,001	14,087	86
Materials and Supplies	12,249	15,887	3,638
Capital Outlay - New	4,300	8,019	3,719

(Continued)

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

Fund Type/Fund/ Function/Object	Appropriations	Expenditures	Excess
(Continued)			
Fiscal			
Purchased Services	5,300	6,647	1,347
Materials and Supplies	1,250	1,329	79
Special Revenue Fund			
Title VI-B			
Pupils			
Purchased Services	4,790	5,754	964

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 and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types		
	General	Special Revenue
GAAP Basis	\$ (25,379)	\$ 9,052
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 1997, Received in Cash FY 1998	23,199	0
Accrued FY 1998, Not Yet Received in Cash	(10,341)	0

(Continued)

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

	General	Special Revenue
(Continued)		
Expenditure Accruals:		
Accrued FY 1997, Paid in Cash FY 1998	(286,530)	(29,108)
Accrued FY 1998, Not Yet Paid in Cash	338,714	35,548
Prepaid Items	(2,232)	(14)
Advances In	7,500	0
Advances Out	0	(7,500)
Encumbrances Outstanding at Year End (Budget Basis)	(14,948)	(1,258)
Budget Basis	\$ 29,983	\$ 6,720

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,

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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.

At fiscal year end, the Educational Service Center had \$365 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classified 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 \$104,359 and the bank balance was \$256,206. Of the bank balance, \$100,000 was covered by federal depository insurance and \$156,206 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 below 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 investments in STAR Ohio and deferred compensation are unclassified since they are not evidenced by securities that exist in physical or book entry form. At June 30, 1998, the

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

carrying amount and fair value of funds on deposit with STAR Ohio and deferred compensation were \$541,732 and \$2,823, respectively.

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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 646,456	\$ 2,823
Cash on Hand	(365)	0
Investments:		
STAR Ohio	(541,732)	541,732
GASB Statement No. 3	\$ 104,359	\$ 544,555

7. INVESTMENT POOL

The Educational Service Center serves as fiscal agent for the Regional Professional Development Center of Northwest Ohio, 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 Securities Exchange Commission 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. The carrying amounts and fair value for both the internal and external portion of the investment pool are disclosed in Note 6 - Deposits and Investments. Condensed financial information for the investment pool follows:

Statement of Net Assets	
June 30, 1998	
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 646,456
<u>Net Assets Held In Trust for Pool Participants:</u>	
Internal Portion	\$ 398,051
External Portion	248,405
Total Net Assets Held in Trust for Pool Participants	\$ 646,456

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 1998

Revenues:		
Interest	\$	30,561
Expenses:		
Operating Expenses		<u>0</u>
Net Increase in Assets Resulting From Operations		30,561
Distribution to Participants		(30,561)
Capital Transactions		<u>53,854</u>
Total Increase in Net Assets		53,854
Net Assets Beginning of Year		<u>592,602</u>
Net Assets End of Year	\$	<u><u>646,456</u></u>

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 local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that local 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 local school districts served by the Educational Service Center by \$32. This amount is provided from State resources.

If additional funding is needed by the Educational Service Center, and if a majority of the Boards of Education of the local 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 local 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 local school districts approve or disapprove the additional apportionment.

9. RECEIVABLES

Receivables at June 30, 1998, consisted of accounts (student fees and billings for user charged services) and intergovernmental 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	
Driver Education	\$ 1,660
Career Education	3,743
Special Education	1,259
Miscellaneous	<u>3,653</u>
Total Intergovernmental Receivables	<u><u>\$ 10,315</u></u>

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

10. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 1998 follows:

Asset Category	Balance at 6/30/97	Additions	Deletions	Balance at 6/30/98
Furniture, Fixtures, and Equipment	\$ 139,764	\$ 57,034	\$ 14,583	\$ 182,215
Vehicles	30,621	0	0	30,621
Total	<u>\$ 170,385</u>	<u>\$ 57,034</u>	<u>\$ 14,583</u>	<u>\$ 212,836</u>

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 1998, the Educational Service Center contracted for the following insurance coverages:

Coverages provided by Frankenmuth Mutual Company:	
Commercial Property Contents - replacement cost (\$250 deductible)	\$ 60,000
Inland Marine Coverage (\$100 deductible)	93,770
Comprehensive General Liability	500,000
Business Auto Coverage	500,000

Coverages by Nationwide Insurance Company:	
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

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

For fiscal year 1998, 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 Hancock County Schools Health Benefit Fund and Trust (the Trust), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Development Disabilities. The Educational Service Center pays monthly premiums to the Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

management and operation of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan 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 State statute per 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. 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 years ended June 30, 1998, 1997, and 1996, were \$34,615, \$34,166, and \$25,404, respectively; 94 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. The unpaid contribution for fiscal year 1998, in the amount of \$2,178, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 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; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996, were \$149,730, \$145,101, and \$135,126, respectively; 3 percent has been contributed for fiscal year 1998 and 100 percent has been contributed for fiscal years 1997 and 1996. The unpaid contribution for fiscal year 1998, in the amount of \$146,461, is recorded as a liability within the respective funds.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

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, 1998, two members of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the Board allocated employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the Educational Service Center, this amount equaled \$49,910 during fiscal year 1998.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$1,860 million at June 30, 1997. For the fiscal year ended June 30, 1997, net health care costs paid by STRS were \$192,077,000, and STRS had 88,718 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-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1997, were \$97,429,197, and the target level was \$121.8 million. At June 30, 1997, SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, was \$16,156 during the 1998 fiscal year.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

14. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal 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 ninety-five days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty days, plus one additional day of sick leave included for every service year after August 1, 1996.

B. Health Care Benefits

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund and Trust (the Trust) for all employee health care benefits. Through the Trust, the Educational Service Center offers life insurance and accidental death and dismemberment insurance to all employees from Community National Assurance Company. The Educational Service Center offers employee medical/surgical benefits from Anthem Blue Cross/Blue Shield. 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. Dental insurance is offered to all employees from Anthem Blue Cross/Blue Shield.

C. Deferred Compensation

Hancock Educational Service Center employees can participate in a statewide deferred compensation plan that was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

All property and rights purchased with the amounts of compensation deferred under the plan and deposited with the program, and all income attributable to the amounts, property, or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the Educational Service Center, without being restricted to the provisions of benefits under the plan, subject only to the claims of the Educational Service Center's general creditors. Participants' rights under the plan are equal to those of general creditors of the Educational Service Center in an amount equal to the fair market value of the deferred account for each participant. The plan agreement states that the Educational Service Center and the Ohio Public Employees Deferred Compensation Board have no liability for losses under the plan with the exception of fraud or wrongful taking.

An agency fund has been established to account for these monies as prescribed by Governmental Accounting Standards Board Statement No. 2, "Financial Reporting of Deferred Compensation Plans Adopted Under the Provisions of Internal Revenue Code Section 457". As of June 30, 1998, the amount on deposit with the Ohio Public Employees Deferred Compensation Board was \$2,823, valued at market.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

15. LONG-TERM OBLIGATIONS

The change during fiscal year 1998 in the Educational Service Center's compensated absences liability reported in the general long-term obligations account group was a decrease of \$2,099, from \$55,738 to \$53,639. Compensated absences will be paid from the fund from which the employees' salaries are paid.

16. JOINTLY GOVERNED ORGANIZATION

Blanchard Valley Cooperative Vocational Career Center

The Blanchard Valley Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90. The Career Center provides vocational instruction services to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative from the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, Pam Barber, who serves as treasurer, at 227 South West Street, Findlay, Ohio 45840-3377.

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. Hancock County Schools Health Benefit Fund and Trust

The Hancock County Schools Health Benefit Fund and Trust (the Trust) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Trust is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Tim Smith, Ohio Benefits Group, 545 Pearl Street, Bowling Green, Ohio 43402.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

18. SCHOOL FOUNDATION 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, 1998, the Educational Service Center received \$1,683,356 of school foundation support for its General Fund.

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

19. 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, 1998.

B. Litigation

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

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**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1998**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity's Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Special Education Cluster				
Special Education - Grants to States	84.027	6B-SF-97P 6B-SF-98P	\$ 0 202,680	\$ 30,124 178,665
Total Special Education - Grants to States			202,680	208,789
Special Education - Preschool Grants	84.173	PG-S1-97P PG-S1-98P	0 11,362	6,438 9,881
Total Special Education - Preschool			11,362	16,319
Total Special Education Cluster			214,042	225,108
Safe and Drug Free Schools and Communities Act	84.186	DRS1-98	29,824	24,115
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-SP-96 G2-SP-96 G2-SP-98P G2-SP-98P	9,884 300 4,193	11,768 9,884 300 3,627
Total Goals 2000			14,377	25,579
Eisenhower Professional Development State Grants	84.281	MS-S1-96 MS-S1-97 MS-S1-97C MS-S1-98	4,782 17,597	285 12,182 3,798 2,685
Total Eisenhower Professional Development			22,379	18,950
<i>Passed Through Ohio Department of Health</i>				
Special Education - Grants for Infants and Families	84.181	32001-A 32001-A	24,958 54,613	17,766 51,303
Total Early Intervention			79,571	69,069
Total Department of Education			360,193	362,821
Total Federal Financial Assistance			\$ 360,193	\$ 362,821

The accompanying notes are integral part of this schedule.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Hancock County Educational Service Center
7746 County Road 140
Findlay, Ohio 45840-1817

To the Board of Education:

We have audited the financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 1998, and have issued our report thereon dated February 28, 2000, in which we disclosed that the Educational Service Center changed its method of accounting for investments. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1998-10232-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 1998-10232-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also 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 February 28, 2000.

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



Jim Petro
Auditor of State

February 28, 2000



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Toledo, Ohio 43604-2246
Telephone 419-245-2811
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hancock County Educational Service Center
7746 County Road 140
Findlay, Ohio 45840-1817

To the Board of Education:

Compliance

We have audited the compliance of Hancock County Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. Hancock County Educational Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

As described in item 1998-10232-003 in the accompanying schedule of findings, the Educational Service Center did not comply with requirements regarding reporting that are applicable to the Special Education Cluster. Compliance with such requirements is necessary, in our opinion, for the Educational Service Center to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Hancock County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1998.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention that relating to significant deficiencies in the design or operation of the internal control over compliance, that in our judgement, could adversely affect the Educational Service Center's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings as item 1999-10232-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over compliance, 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 February 28, 2000.

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



Jim Petro
Auditor of State

February 28, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1998

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 1998-10232-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states 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 certifications are to 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, at the time of the contract or purchase order, and at the time of the certificate, appropriated and free of any previous encumbrance, the Board may authorize the issuance of a warrant 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.

Twenty percent of the transactions tested had not been properly certified. Prior certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of Educational Service Center funds being over expended or exceeding budgetary spending limitations as set by the Board.

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

FINDING NUMBER 1998-10232-002

Internal Control - Reportable Condition

Disbursement and Payroll Controls

The following weaknesses were noted in the controls for purchasing and payroll:

- Several disbursements were not approved by the Superintendent, who serves as the Educational Service Center's purchasing agent;
- Purchase orders were not sequentially dated, which could be the result of purchase orders being back dated;
- There was no documented verification that goods or services, for which payments were made, had been received;

- Salary notices were not reviewed and approved by anyone other than the Treasurer; and
- The entire bi-weekly payroll process is completed by the Treasurer, with no independent review of the process.

These weaknesses limit the Educational Service Center’s control over disbursement and payroll processing and increases the possibility of errors or irregularities occurring and not being detected in the normal course of operations.

It is recommended that:

- All disbursements be reviewed and approved by the Superintendent prior to payment being made;
- All purchase orders be issued in sequential order and dated on the actual date issued;
- No payments be made until verification is obtained that the goods or services have been received;
- All salary notices be reviewed by and include approval of the Treasurer and Board President; and
- The bi-weekly payroll be reviewed and approved by someone, other than the Treasurer, prior to checks being issued.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 1998-10232-003

CFDA Title and Numbers	Special Education Cluster, CFDA # 84.027 and 84.173
Federal Award Number/Year	6B-SF-97P/FYE 6/30/97 6B-SF-98P/FYE 6/30/98 PG-S1-97/ FYE 6/30/97 PG-S1-98/ FYE 6/30/98
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation

OMB Circular A-133 paragraph 300 (a) and (e), states:

The auditee shall:

- (f) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program award and identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal Agency, and name of the pass-through entity.
- (e) Ensure that audits required by this part are properly performed and submitted when due. OMB Circular A-133 paragraph 320 (a) requires the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditors report or, for fiscal year 1998, thirteen months after the end of the audit period.

The Educational Service Center expended in excess of \$300,000 during fiscal year 1998 and was therefore required to submit an audit report within thirteen month of the fiscal year end, however, the Educational Service Center did not request a single audit for fiscal year 1998.

Failure to comply with OMB Circular A-133 may result in a loss of Federal funding, which would severely restrict the Educational Service Center's ability to provide the current level of services. It is recommended that the Educational Service Center review total Federal funding at the end of each fiscal year and request a single audit when total Federal expenditures exceed \$300,000.

FINDING NUMBER 1998-10232-004

CFDA Title and Numbers	Special Education Cluster, CFDA # 84.027 and 84.173
Federal Award Number/Year	6B-SF-97P/FYE 6/30/97 6B-SF-98P/FYE 6/30/98 PG-S1-97/ FYE 6/30/97 PG-S1-98/ FYE 6/30/98
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Internal Control - Reportable Condition

Disbursement and Payroll Controls

As described in finding number 1998-10232-002 above there were several internal control weaknesses noted in the processing of disbursements and payroll, that also had an effect on the processing of Federal transactions.



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

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK 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
MARCH 14, 2000**