

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

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REPORT OF INDEPENDENT ACCOUNTANTS

Mahoning County Educational Service Center
2801 Market Street
Youngstown, Ohio 44507

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Mahoning County Educational Service Center, Mahoning County, (the Government) 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 Government'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 Mahoning County Educational Service Center, Mahoning County, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 1999 on our consideration of the Government'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 Government, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", is written over a circular stamp or seal.

Jim Petro
Auditor of State

December 15, 1999

**Mahoning County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,228,017	\$765,309	\$59,135
Receivables:			
Accounts	0	0	673
Intergovernmental	520,854	88,001	0
Interfund Receivable	40,000	0	0
Materials and Supplies Inventory	14,569	0	0
Fixed Assets	0	0	0
<u>Other Debits:</u>			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debits	\$2,803,440	\$853,310	\$59,808
<u>Liabilities, Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$35,170	\$79,281	\$750
Accrued Wages and Benefits	609,829	182,603	3,275
Compensated Absences Payable	5,343	2,047	701
Interfund Payable	0	40,000	0
Intergovernmental Payable	504,100	91,431	674
Deferred Revenue	520,854	0	0
Undistributed Monies	0	0	0
Total Liabilities	1,675,296	395,362	5,400
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	52,521	299,536	17,052
Reserved for Inventory	14,569	0	0
Unreserved, Undesignated	1,061,054	158,412	37,356
Total Fund Equity and Other Credits	1,128,144	457,948	54,408
Total Liabilities, Fund Equity and Other Credits	\$2,803,440	\$853,310	\$59,808

See accompanying Notes to the General Purpose Financial Statement

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$924,607	\$0	\$0	\$3,977,068
0	0	0	673
6,229	0	0	615,084
0	0	0	40,000
0	0	0	14,569
0	550,180	0	550,180
0	0	172,191	172,191
<u>\$930,836</u>	<u>\$550,180</u>	<u>\$172,191</u>	<u>\$5,369,765</u>
\$9,433	\$0	\$0	\$124,634
76,571	0	0	872,278
13,958	0	122,279	144,328
0	0	0	40,000
46,793	0	49,912	692,910
0	0	0	520,854
<u>784,081</u>	<u>0</u>	<u>0</u>	<u>784,081</u>
<u>930,836</u>	<u>0</u>	<u>172,191</u>	<u>3,179,085</u>
0	550,180	0	550,180
0	0	0	369,109
0	0	0	14,569
0	0	0	1,256,822
0	550,180	0	2,190,680
<u>\$930,836</u>	<u>\$550,180</u>	<u>\$172,191</u>	<u>\$5,369,765</u>

Mahoning County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 1999

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
Intergovernmental	\$2,757,094	\$3,799,762	\$58,500	\$6,615,356
Interest	212,281	0	0	212,281
Tuition and Fees	25,302	0	0	25,302
Gifts and Donations	4,800	0	0	4,800
Customer Services	3,064,885	0	0	3,064,885
Miscellaneous	1,537	1,410	0	2,947
Total Revenues	6,065,899	3,801,172	58,500	9,925,571
Expenditures:				
Current:				
Instruction:				
Regular	392,699	0	0	392,699
Special	1,250,220	636,655	0	1,886,875
Vocational	55,292	0	0	55,292
Support Services:				
Pupils	1,455,615	811,179	0	2,266,794
Instructional Staff	1,385,158	1,070,088	91,966	2,547,212
Governing Board	14,204	0	0	14,204
Administration	146,761	177,094	0	323,855
Fiscal	147,523	72,580	0	220,103
Business	55,021	3,253	0	58,274
Operation and Maintenance of Plant	8,597	148,272	0	156,869
Pupil Transportation	0	458,990	0	458,990
Central	69,830	20,500	0	90,330
Operation of Non-Instructional				
Services	0	387,281	0	387,281
Capital Outlay	0	0	4,727	4,727
Intergovernmental	0	85,030	0	85,030
Total Expenditures	4,980,920	3,870,922	96,693	8,948,535
Excess of Revenues Over (Under) Expenditures	1,084,979	(69,750)	(38,193)	977,036
Other Financing Sources:				
Proceeds from Sale of Fixed Assets	250	0	0	250
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	1,085,229	(69,750)	(38,193)	977,286
Fund Balances at Beginning of Year	50,004	527,698	92,601	670,303
Decrease in Inventory	(7,089)	0	0	(7,089)
Fund Balances at End of Year	\$1,128,144	\$457,948	\$54,408	\$1,640,500

See accompanying Notes to the General Purpose Financial Statements

Mahoning County Educational Service Center
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$3,591,329	\$2,757,094	(\$834,235)	\$3,654,902	\$3,713,393	\$58,491
Interest	180,000	212,058	32,058	0	0	0
Tuition and Fees	0	25,302	25,302	0	0	0
Gifts and Donations	1,000	4,800	3,800	0	0	0
Customer Services	1,025,000	3,193,608	2,168,608	0	0	0
Miscellaneous	1,000	1,537	537	0	1,410	1,410
Total Revenues	4,798,329	6,194,399	1,396,070	3,654,902	3,714,803	59,901
Expenditures:						
Current:						
Instruction:						
Regular	424,648	411,830	12,818	0	0	0
Special	1,270,387	1,254,174	16,213	778,379	665,209	113,170
Vocational	61,260	54,552	6,708	0	0	0
Support Services:						
Pupils	1,453,360	1,431,021	22,339	875,863	889,840	(13,977)
Instructional Staff	1,390,684	1,350,945	39,739	1,404,097	1,239,425	164,672
Governing Board	17,390	14,722	2,668	0	0	0
Administration	145,080	149,533	(4,453)	225,415	201,045	24,370
Fiscal	154,835	144,911	9,924	77,166	68,040	9,126
Business	64,219	59,339	4,880	5,261	3,808	1,453
Operation and Maintenance of Plant	12,892	8,473	4,419	167,419	155,384	12,035
Pupil Transportation	0	0	0	514,472	496,128	18,344
Central	108,641	85,396	23,245	29,968	25,280	4,688
Operation of Non-Instructional Services						
	0	0	0	514,257	455,844	58,413
Total Expenditures	5,103,396	4,964,896	138,500	4,592,297	4,200,003	392,294
Excess of Revenues Over (Under) Expenditures	(305,067)	1,229,503	1,534,570	(937,395)	(485,200)	452,195
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	0	250	250	0	0	0
Advances In	0	0	0	0	40,000	40,000
Advances Out	(40,000)	(40,000)	0	0	0	0
Total Other Financing Sources (Uses)	(40,000)	(39,750)	250	0	40,000	40,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(345,067)	1,189,753	1,534,820	(937,395)	(445,200)	492,195
Fund Balances at Beginning of Year						
	596,004	596,004	0	506,190	506,190	0
Prior Year Encumbrances Appropriated						
	28,326	28,326	0	263,858	263,858	0
Fund Balances at End of Year	\$279,263	\$1,814,083	\$1,534,820	(\$167,347)	\$324,848	\$492,195

See accompanying Notes to the General Purpose Financial Statements

Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$58,500	\$58,500	\$0	\$7,304,731	\$6,528,987	(\$775,744)
0	0	0	180,000	212,058	32,058
0	0	0	0	25,302	25,302
0	0	0	1,000	4,800	3,800
0	0	0	1,025,000	3,193,608	2,168,608
0	0	0	1,000	2,947	1,947
<u>58,500</u>	<u>58,500</u>	<u>0</u>	<u>8,511,731</u>	<u>9,967,702</u>	<u>1,455,971</u>
0	0	0	424,648	411,830	12,818
0	0	0	2,048,766	1,919,383	129,383
0	0	0	61,260	54,552	6,708
0	0	0	2,329,223	2,320,861	8,362
116,431	112,874	3,557	2,911,212	2,703,244	207,968
0	0	0	17,390	14,722	2,668
0	0	0	370,495	350,578	19,917
0	0	0	232,001	212,951	19,050
0	0	0	69,480	63,147	6,333
0	0	0	180,311	163,857	16,454
0	0	0	514,472	496,128	18,344
0	0	0	138,609	110,676	27,933
0	0	0	514,257	455,844	58,413
<u>116,431</u>	<u>112,874</u>	<u>3,557</u>	<u>9,812,124</u>	<u>9,277,773</u>	<u>534,351</u>
<u>(57,931)</u>	<u>(54,374)</u>	<u>3,557</u>	<u>(1,300,393)</u>	<u>689,929</u>	<u>1,990,322</u>
0	0	0	0	250	250
0	0	0	0	40,000	40,000
0	0	0	(40,000)	(40,000)	0
0	0	0	(40,000)	250	40,250
(57,931)	(54,374)	3,557	(1,340,393)	690,179	2,030,572
82,338	82,338	0	1,184,532	1,184,532	0
13,369	13,369	0	305,553	305,553	0
<u>\$37,776</u>	<u>\$41,333</u>	<u>\$3,557</u>	<u>\$149,692</u>	<u>\$2,180,264</u>	<u>\$2,030,572</u>

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

1. DESCRIPTION

On July 18, 1914, the Mahoning County Educational Service Center (Educational Service Center) was formed. The Educational Service Center provides administrative, curricular, instructional, pupil personnel and professional staff development services to local school districts. Direct instructional programs are provided to preschool students and their families.

The Educational Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by state and federal agencies. The Governing Board oversees the Educational Service Center's operation and its staff of 100 certificated and 60 noncertificated personnel. Staff members support the educational efforts of 11 local school districts and their 24,000 plus students.

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. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure 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 Mahoning County Educational Service Center, this is providing necessary services to local school districts.

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 two organizations which are defined as a Jointly Governed Organizations. The Educational Service Center is also associated with two public entity risk pools and a related organization. The jointly governed organization is presented in Note 8 to the general purpose financial statements, the public entity risk pools are presented in Note 16, and the related organization is presented in Note 17. These organizations are:

- Area Cooperative Computerized Educational Service System
- North East Ohio Special Education Regional Resource Center
- Ohio School Boards Association Workers' Compensation Group Rating Program
- Mahoning County Insurance Consortium
- Mahoning County Joint Vocational School District

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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 regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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 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 (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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:

4. General Fixed Assets Account Group

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

5. General Long-Term Obligations Account Group

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

C. 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.

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 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 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 and charges for services.

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year for all funds on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employers retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County Educational Service Center. The State Board of Education reviews the budget.

Estimated Receipts

After the start of the fiscal year, estimated receipts are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated receipts represent the maximum amount that may be appropriated from each fund. Estimated receipts may be further amended during the year as projected. Increases or decreases in revenues are identified by the treasurer. Grant programs are approved by the board.

Appropriations

The annual appropriation resolution must be legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board 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 as submitted to the State 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 Board of Education. The Board 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 Board of Education. During the year, one supplemental appropriation was legally enacted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including the supplemental appropriation. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

To improve cash management, cash received by the Education Service Center is pooled. Monies for all funds are maintained in this pool. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 1999, investments were limited to repurchase agreements, Federal National Mortgage Association securities, and STAROHio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$212,281, which includes \$93,170 assigned from other Education Service Center funds.

For presentation on the combined balance sheet, investments of 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 original maturity of more than three months that are not made from the pool are considered to be investments.

F. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable 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 related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost). Donated fixed assets are recorded at their fair market value as of the date received. The Educational Service Center maintains a capitalization threshold of three hundred 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. Assets in the general fixed assets account group are not depreciated. Interest incurred during the construction of general fixed assets is also not capitalized.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

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 Foundation Program

Non-Reimbursable Grants

Special Revenue Funds
Title VIB
Head Start
Dwight D. Eisenhower
Professional Development Block Grant
Entry Year
Drug Free Schools
Educational Management Information System
Preschool

Capital Projects Fund
School Net

Grants and entitlements amounted to 66 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

I. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through to 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. 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.

J. Short-term 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 receivable/payables."

K. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

compensation are attributed 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 termination payment method. The liability is an estimate of the Educational Service Center's past experience of making termination payments. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments.

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

L. 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, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. In general, payments made more than sixty days after year end are considered not to have been made with current available financial resources.

M. Interfund Transactions

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

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

N. 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 spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and inventory.

O. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Total Columns on General Purpose Financial Statements

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

3. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance 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:

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

The following tables summarize 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	Capital Projects
GAAP Basis	\$1,085,229	(\$69,750)	(\$38,193)
Revenue Accruals	128,500	(86,369)	0
Advance In	0	40,000	0
Expenditure Accruals	102,652	74,440	1,622
Advance Out	(40,000)	0	0
Encumbrances	(86,628)	(403,521)	(17,803)
Budget Basis	<u>\$1,189,753</u>	<u>(\$445,200)</u>	<u>(\$54,374)</u>

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

4. COMPLIANCE

The following fund accounts had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

	Appropriations	Expenses plus Encumbrances	Excess
General Fund:			
Administration	\$145,080	\$149,533	(\$4,453)
Special Revenue Funds:			
Wellness			
Community Services	289,160	290,638	(1,478)
Head Start			
Instructional Staff	456,176	480,566	(24,390)
Public Preschool			
Support Services - Pupils	28,074	33,255	(5,181)
Support Services - Admin.	18,276	21,089	(2,813)
Early Start			
Support Services - Pupils	288,187	300,668	(12,481)
Operation & Maintenance	21,786	21,891	(105)
Central Office	590	1,090	(1,770)
Even Start Grant			
Support Ser. - Instr. Staff	8,883	12,532	(3,649)
Goals 2000 Grant			
Administration	26,477	27,159	(682)
Business	3,000	3,150	(150)

The following special revenue funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 1999:

	Estimated Revenues	Appropriations	Excess
Special Revenue Funds:			
Wellness	\$64,742	\$316,991	(\$252,249)
Professional Development	197,704	268,611	(70,907)
Head Start	1,857,874	2,180,651	(322,777)
Transition Funding	0	176,622	(176,622)
Eisenhower	215,696	331,749	(116,053)
Goals 2000	209,068	241,469	(32,401)

5. DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the Educational Service Center into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a cash or "near-cash" status for immediate use by the Educational Service Center. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawable

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

5. DEPOSITS AND INVESTMENTS (Continued)

on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" monies, 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 Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as a 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:

- A. 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;
- B. 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;
- C. 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;
- D. Bonds and other obligations of the State of Ohio;
- E. No-loan money market mutual funds consisting exclusively of obligations described in division (1) of (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- F. The State Treasurer's investment pool (STAROhio);
- G. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- H. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

5. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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, if the securities are not represented by a certificate, upon receipt of confirmation or transfer from the custodian.

Deposits At year-end, the carrying amount of the Educational Service Center's deposits was (\$848,706) and the bank balance was \$653,467. \$100,000 of the bank balance was covered by federal depository insurance. \$553,467 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the Educational Service Center to categorize investments 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 or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which 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 invests in STAROhio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Carrying Amount	Fair Value
Repurchase Agreement	\$151,000	\$151,000	\$151,000
Federal National Mortgage	500,450	500,450	500,450
STAROhio		4,174,324	4,174,324
Total Investments	\$651,450	\$4,825,774	\$4,825,774

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,977,068	\$0
Investments which are part of a cash management pool:		
Repurchase Agreement	(151,000)	151,000
Federal National Mortgage	(500,450)	500,450
STAROhio	(4,174,324)	4,174,324
GASB Statement 3	(\$848,706)	\$4,825,774

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

6. RECEIVABLES

Receivables at June 30, 1999, consisted primarily of excess costs and customer services. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
Excess Cost	\$520,854
Special Revenue Fund:	
Head Start	88,001
Agency Fund:	
Title VI-B	<u>6,229</u>
Grand Total	<u><u>\$615,084</u></u>

7. STATE FUNDING

The Mahoning County Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. (For an explanation of the budget, see Note 2 - Budgetary Data.)

Part (B) of the budget is funded \$32.00 in the following way: six dollars and fifty cents times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Educational Service Center provides services from payments made under the State's foundation program. Simultaneously, twenty-nine dollars times the sum of ADM is paid by the State Board of Education from State funds of the County Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$35.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

8. JOINTLY GOVERNED ORGANIZATIONS

A. Area Cooperative Computerized Educational Service System

The Area Cooperative Computerized Educational Service System is a jointly governed organization among twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The nine member board of directors consists of the superintendent from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. All the consortium revenues are generated from charges for services and State funding.

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

8. JOINTLY GOVERNED ORGANIZATIONS (Continued)

2. North East Ohio Special Education Regional Resource Center (NEOSERRC)

NEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NEOSERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the board. The Educational Service Center serves as fiscal agent for NEOSERRC which is accounted for in an agency fund.

9. FIXED ASSETS

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

	Balance 6/30/98	Additions	Deletions	Balance 6/30/99
Furniture and Equipment	442,795	78,307	643	520,459
Vehicles	29,721	0	0	29,721
Total	\$472,516	\$78,307	\$643	\$550,180

There was no construction in progress at June 30, 1999.

10. RISK MANAGEMENT

A. Property and Liability

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 Cincinnati Insurance Company for property and general liability insurance.

Professional liability is provided by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$50 deductible for comprehensive and a \$250 deductible for collision. Automobile liability has a \$500,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). 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

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

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation (Continued)

rather than its individual performance 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. Employee Medical Benefits

The Educational Service Center has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. The Educational Service Center contributes \$300.00 toward medical/surgical premiums of \$365.46 for family coverage and pays \$149.05 for single coverage. Monthly premiums for prescription drug insurance are \$45.25 for single coverage and \$100.90 for family coverage, of which the Educational Service Center contributes \$38.41. Premiums for dental coverage are \$52.62 monthly on a composite basis and the Educational Service Center contributes \$42.44.

11. DEFINED BENEFIT PENSION PLAN

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. 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 chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent was used 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, by the SERS' Retirement Board. The Education Service Center's required contribution for pension obligations to SERS for the years ending June 30, 1999, 1998, and 1997 were \$132,791, \$131,822, and \$119,842, respectively; 93 percent has been contributed for the fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$9,097 represents the unpaid contribution for fiscal year 1999, and is recorded as a liability within the respective funds and the general long-term obligations account group.

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

11. DEFINED BENEFIT PENSION PLAN (Continued)

B. State Teachers Retirement System

Mahoning County Educational Service Center contributes to the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, 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. The 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 Jun 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salary. The Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion to fund pension obligations was 10.5 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 Education Service Center's required contributions for pension obligations to STRS for the fiscal years ending June 30, 1999, 1998, and 1997 were \$284,687, \$325,737, and \$343,521, respectively; 73 percent has been contributed for the fiscal year 1999 and 100 percent has been contributed for the fiscal years 1998 and 1997. \$77,285 represents the unpaid contribution for the fiscal year 1999 and 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, 1998, one of the board of education members has elected social security. The board's liability is 6.2 percent of wages paid.

2. POSTEMPLOYMENT BENEFITS

The Education Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependants are eligible for health care coverage. The STRS Board has the authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contribution 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 \$379,583 for fiscal year 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.

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

12. POSTEMPLOYMENT BENEFITS (Continued)

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 to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$158,559.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provided for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of the 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.

13. Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn vacation time. 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 233 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 47 days.

B. Medical and Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company, in the amount of \$25,000.

14. LONG TERM OBLIGATIONS

Changes in long-term obligations of the Educational Service Center from June 30, 1998 to June 30, 1999, were as follows:

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
General Long-Term Obligations:				
Compensated Absences	\$95,832	\$26,447	\$0	\$122,279
Pension Obligation	34,618	49,912	(34,618)	49,912
<i>General Long-Term Obligations:</i>	<u>\$130,450</u>	<u>\$76,359</u>	<u>(\$34,618)</u>	<u>\$172,191</u>

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

14. LONG TERM OBLIGATIONS (Continued)

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension obligations paid outside the available period and will be paid from the fund from which the person is paid.

15. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. School Foundation Money

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Education Service Center. During the fiscal year ended June 30, 1999, the Education Service Center received \$2,420,088 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. At this time, the Ohio Supreme court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme court, and, as such, school district are still operating under the laws that the Common Pleas court declared unconstitutional.

As of the date of these financial statements, the Education 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.

16. PUBLIC ENTITY RISK POOLS

A. Insurance Purchasing Pool

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP business

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

16. Public Entity Risk Pools (Continued)

A. Insurance Purchasing Pool (Continued)

and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past-President of OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating schools pay an enrollment fee to the GRP to cover the cost of administering the program.

B. Shared Risk Pool

The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County Schools. The consortium is governed by an assembly which consists of one representative from each participating school (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

17. RELATED ORGANIZATION

The Mahoning County Joint Vocational School District is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The five members of the Governing Board of the Mahoning County Educational Service Center are also members of the Board of Education of the Mahoning County Joint Vocational School District which includes two other members. The Governing Board of the Mahoning County Educational Service Center cannot directly impose their will on the Mahoning County Joint Vocational School District.

18. YEAR 2000 ISSUE

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

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

Northwest Ohio Computer Association, State software development team states,

"The payroll processing software supported with the OECN State Software is compliant with Year 2000.

The accounting software supported with the OECN State Software is compliant with Year 2000.

The education management information system software supported with the OECN State Software is compliant with Year 2000.

The equipment inventory and vehicle inventory system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the March 1999 release of SAAS V2.1."

The State of Ohio distributes a substantial amount 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 Education Service Center through EMIS. The State is responsible for remediating these systems.

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

18. YEAR 2000 ISSUE (Continued)

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of the 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 the parties with whom the Educational Service Center does business will be year 2000 ready.

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED June 30, 1999**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child and Adult Care Food Program	048280-21-ML-00	10.558	\$9,687	\$9,687
Total U.S. Department of Agriculture			<u>9,687</u>	<u>9,687</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Employment Services and Job Training	048280-WK-BE-00	17.249	87,187	87,187
Special Education Cluster				
Special Education - Grants to State	048280-6B-II-98 P	84.027	0	25,500
	048280-PD-A1-98	84.027	0	2,050
	048280-6B-SI-98	84.027	114,603	166,970
	048280-6B-SI-99R	84.027	831,555	711,247
Total Special Education - Grants to State.			<u>946,158</u>	<u>905,767</u>
Special Education Preschool Grant				
	048280-PG-S3-98 P	84.173	0	13,838
	048280-PG-S7-98	84.173	0	811
	048280-PG-S1-99 P	84.173	90,753	90,753
	048280-PG-S7-99	84.173	10,000	8,863
Total Special Education Preschool Grant			<u>100,753</u>	<u>114,265</u>
Total Special Education Cluster			1,046,911	1,020,032
Project L.I.F.E.	048280-PF-S1-99 P	84.158	6,000	6,000
Safe and Drug-Free Schools Grant	048280-DR-S2-98 C	84.186	24,000	16,576
Even Start Grant	048280-EV-S1-99	84.213	143,797	86,281
Goals 2000 - State and Local Education Systematic Improvement Grant	048280-G2-S4-98	84.276	137,581	127,432
Eisenhower Professional Development State Grants				
	048280-6B-SI-97 P	84.281	0	17,242
	048280-MS-S1-97 C	84.281	0	2,859
	048280-MS-S2-98 C	84.281	54,614	44,978
	048280-MS-S1-98 C	84.281	81,112	0
	048280-MS-S1-99	84.281	35,175	95,878
Total Eisenhower Grants			<u>170,901</u>	<u>160,957</u>
<i>Passed Through Franklin County ESC:</i>				
Special Education - Grants to State	048280-6B-SI-99L	84.281	2,550	0
	048280-6B-SI-99W	84.027	3,500	3,500
			6,050	3,500
<i>Passed Through Trumbull County ESC:</i>				
Drug-Free Schools Grant	048280-G2-S4-99	84.276	21,384	6,708
Total U. S. Department of Education			<u>1,643,811</u>	<u>1,514,673</u>
Total Federal Assistance			<u>\$1,653,498</u>	<u>\$1,524,360</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 1999**

SIGNIFICANT ACCOUNTING POLICIES

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



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

Mahoning County Educational Service Center
Mahoning County
2801 Market Street
Youngstown, Ohio 44507

To The Board of Education:

We have audited the financial statements of Mahoning County Educational Service Center as of and for the year ended June 30, 1999, and have issued our report thereon dated December 15, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mahoning County 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mahoning County Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Mahoning County Educational Service Center in a separate letter dated December 15, 1999.

This report is intended for the information and use of management, the Board of Educational, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a circular stamp or seal.

Jim Petro
Auditor of State

December 15, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Mahoning County Educational Service Center
2801 Market Street
Youngstown, Ohio 44507

Compliance

We have audited the compliance of Mahoning County 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, 1999. Mahoning 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 Mahoning County Educational Service Center's management. Our responsibility is to express an opinion on the 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 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 Service Center's compliance with those requirements.

In our opinion, Mahoning County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of Mahoning County 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 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

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

This report is intended for the information and use of, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", is written over a circular stamp or seal that is partially obscured by the signature.

Jim Petro
Auditor of State

December 15, 1999

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
June 30, 1999**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	84.027 - Special Education Grants to State 84.276 - Goals 2000 84.173 - Special Education - Preschool Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING 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.

By: *Susan Babbitt*

Date: **JAN 18 2000**