



**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## REPORT ON INDEPENDENT ACCOUNTANTS

Northwest Ohio Educational Service Center  
Fulton County  
602 South Shoop Avenue  
PO Box 552  
Wauseon, Ohio 43567-0552

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Northwest Ohio Educational Service Center, Fulton County, (the Service Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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.

As more fully described in Note 3 to the general-purpose financial statements, certain changes in accounting policies and financial reporting practices were made in order to present the aforementioned general-purpose financial statements in conformity with generally accepted accounting principles. Such changes were adopted effective July 1, 1998 and to implement those changes, adjustments were made to restate fund balances as of that date.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Service Center as of June 30, 1999, and the results of its operations for the year ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2000 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 Service Center, taken as a whole. The accompanying schedule of federal awards expenditures and supplemental schedules are 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 are 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, are fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

**Jim Petro**  
Auditor of State

February 11, 2000

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

	<b>Governmental Fund Types</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>ASSETS AND OTHER DEBITS</b>		
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,094,149	\$503,561
Receivables:		
Accounts	7,964	
Intergovernmental	471,477	9,362
Interfund	34,500	
Materials and Supplies Inventory	17,673	
Prepaid Items	63,079	1,973
Fixed Assets		
<b>Other Debits:</b>		
Amount to be Provided from General Governmental Resources		
<b>Total Assets and Other Debits</b>	<b>\$2,688,842</b>	<b>\$514,896</b>
<b>LIABILITIES, EQUITY, AND OTHER CREDITS</b>		
<b>Liabilities:</b>		
Accounts Payable	\$9,620	\$3,132
Accrued Wages and Benefits	1,463,047	99,894
Compensated Absences Payable	13,343	852
Intergovernmental Payable	217,028	17,504
Interfund Payable		34,500
Undistributed Assets		
<b>Total Liabilities</b>	<b>1,703,038</b>	<b>155,882</b>
<b>Fund Equity and Other Credits:</b>		
Investment in General Fixed Assets		
Fund Balance:		
Reserved for Inventory	17,673	
Reserved for Encumbrances	114,761	91,534
Unreserved	853,370	267,480
<b>Total Fund Equity and Other Credits</b>	<b>985,804</b>	<b>359,014</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$2,688,842</b>	<b>\$514,896</b>

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



<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$881,837			\$3,479,547
			7,964
			480,839
			34,500
			17,673
			65,052
	\$1,648,995		1,648,995
		\$627,190	627,190
<b><u>\$881,837</u></b>	<b><u>\$1,648,995</u></b>	<b><u>\$627,190</u></b>	<b><u>\$6,361,760</u></b>

			\$12,752
			1,562,941
		\$571,651	585,846
\$865,720		55,539	1,155,791
			34,500
16,117			16,117
<u>881,837</u>		<u>627,190</u>	<u>3,367,947</u>
	\$1,648,995		1,648,995
			17,673
			206,295
			1,120,850
	<u>1,648,995</u>		<u>2,993,813</u>
<b><u>\$881,837</u></b>	<b><u>\$1,648,995</u></b>	<b><u>\$627,190</u></b>	<b><u>\$6,361,760</u></b>

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
<b>Revenues:</b>			
Intergovernmental	\$3,592,403	\$2,454,512	\$6,046,915
Interest	143,915		143,915
Tuition and Fees	7,959,887		7,959,887
Customer Services	365,395		365,395
Gifts and Donations	13,990	4,000	17,990
Miscellaneous	62,653	1,150	63,803
Total Revenues	<u>12,138,243</u>	<u>2,459,662</u>	<u>14,597,905</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	401,524	93,159	494,683
Special	4,079,786	141,530	4,221,316
Vocational		53,383	53,383
Adult/Continuing	3,140	12,271	15,411
Support Services:			
Pupils	2,710,534	490,535	3,201,069
Instructional Staff	3,390,404	208,749	3,599,153
Board of Education	76,461		76,461
Administration	709,360	157,239	866,599
Fiscal	200,606	36,451	237,057
Operation and Maintenance of Plant	139,083	24,940	164,023
Pupil Transportation	121,145	13,108	134,253
Central	44,231	5,992	50,223
Non-Instructional Services		10,652	10,652
Intergovernmental		1,352,210	1,352,210
Total Expenditures	<u>11,876,274</u>	<u>2,600,219</u>	<u>14,476,493</u>
Excess of Revenues Over (Under) Expenditures	<u>261,969</u>	<u>(140,557)</u>	<u>121,412</u>
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In		4,050	4,050
Operating Transfers Out	(4,050)		(4,050)
Proceeds from Sale of Fixed Assets	759		759
Total Other Financing Sources (Uses)	<u>(3,291)</u>	<u>4,050</u>	<u>759</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	258,678	(136,507)	122,171
Fund Balances at Beginning of Year - (Restated Note 3)	724,903	495,521	1,220,424
Increase in Reserve for Inventory	2,223		2,223
<b>Fund Balances at End of Year</b>	<u><u>\$985,804</u></u>	<u><u>\$359,014</u></u>	<u><u>\$1,344,818</u></u>

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

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

	<b>General Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$3,456,000	\$3,597,287	\$141,287
Interest	135,000	143,915	8,915
Tuition and Fees	6,916,599	7,647,179	730,580
Customer Services	200,741	343,834	143,093
Gifts and Donations		13,990	13,990
Miscellaneous	6,000	9,663	3,663
<b>Total Revenues</b>	<b>10,714,340</b>	<b>11,755,868</b>	<b>1,041,528</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	473,788	408,954	64,834
Special	4,256,523	4,077,820	178,703
Vocational	20,862	20,859	3
Adult/Continuing	7,330	4,327	3,003
Support Services:			
Pupils	2,896,184	2,698,712	197,472
Instructional Staff	3,550,731	3,294,440	256,291
Board of Education	90,749	77,021	13,728
Administration	759,699	721,849	37,850
Fiscal	228,271	209,438	18,833
Operation and Maintenance of Plant	212,318	144,124	68,194
Pupil Transportation	210,429	162,946	47,483
Central	81,030	63,931	17,099
Non-Instructional Services	429	429	429
<b>Total Expenditures</b>	<b>12,788,343</b>	<b>11,884,421</b>	<b>903,922</b>
Excess of Expenditures Over Revenues	(2,074,003)	(128,553)	1,945,450
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In			
Operating Transfers Out	(10,000)	(4,050)	5,950
Advances In	2,050	2,050	
Advances Out	(34,500)	(34,500)	
Proceeds from Sale of Fixed Assets		759	759
Refund of Prior Year Expenditures	60,000	61,297	1,297
Refund of Prior Year Receipts	(18,495)		18,495
Other Financing Sources		35	35
<b>Total Other Financing Sources (Uses)</b>	<b>(945)</b>	<b>25,591</b>	<b>26,536</b>
Excess of Expenditures and Other Financing Uses Over Revenues and Other Financing Sources	(2,074,948)	(102,962)	1,971,986
Fund Balances at Beginning of Year	1,845,084	1,845,084	
Prior Year Encumbrances Appropriated	229,864	229,864	
<b>Fund Balances at End of Year</b>	<b>\$1,971,986</b>	<b>\$1,971,986</b>	

*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)
\$3,102,216	\$2,657,350	(\$444,866)	\$6,558,216	\$6,254,637	(\$303,579)
			135,000	143,915	8,915
			6,916,599	7,647,179	730,580
			200,741	343,834	143,093
4,000	4,000		4,000	17,990	13,990
			6,000	9,663	3,663
<u>3,106,216</u>	<u>2,661,350</u>	<u>(444,866)</u>	<u>13,820,556</u>	<u>14,417,218</u>	<u>596,662</u>
213,094	91,978	121,116	686,882	500,932	185,950
657,914	553,922	103,992	4,914,437	4,631,742	282,695
138,407	87,984	50,423	159,269	108,843	50,426
12,128	10,363	1,765	19,458	14,690	4,768
1,378,284	1,226,576	151,708	4,274,468	3,925,288	349,180
778,878	513,150	265,728	4,329,609	3,807,590	522,019
			90,749	77,021	13,728
229,799	180,514	49,285	989,498	902,363	87,135
49,093	38,109	10,984	277,364	247,547	29,817
58,463	41,304	17,159	270,781	185,428	85,353
27,844	12,680	15,164	238,273	175,626	62,647
8,670	5,992	2,678	89,700	69,923	19,777
36,720	31,306	5,414	37,149	31,306	5,843
<u>3,589,294</u>	<u>2,793,878</u>	<u>795,416</u>	<u>16,377,637</u>	<u>14,678,299</u>	<u>1,699,338</u>
<u>(483,078)</u>	<u>(132,528)</u>	<u>350,550</u>	<u>(2,557,081)</u>	<u>(261,081)</u>	<u>2,296,000</u>
4,050	4,050		4,050	4,050	
			(10,000)	(4,050)	5,950
	34,500	34,500	2,050	36,550	34,500
(2,050)	(2,050)		(36,550)	(36,550)	
				759	759
			60,000	61,297	1,297
(7,688)	(7,688)		(26,183)	(7,688)	18,495
3,820	1,150	(2,670)	3,820	1,185	(2,635)
<u>(1,868)</u>	<u>29,962</u>	<u>31,830</u>	<u>(2,813)</u>	<u>55,553</u>	<u>58,366</u>
(484,946)	(102,566)	382,380	(2,559,894)	(205,528)	2,354,366
441,687	441,687		2,286,771	2,286,771	
68,727	68,727		298,591	298,591	
<u>\$25,468</u>	<u>\$407,848</u>	<u>\$382,380</u>	<u>\$25,468</u>	<u>\$2,379,834</u>	<u>\$2,354,366</u>

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

**1. REPORTING ENTITY**

Northwest Ohio Educational Service Center (the Educational Service Center) is located in Wauseon, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to seventeen local, three exempted village, and three city school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

On December 31, 1996, the Defiance, Fulton, Henry, and Williams County Educational Service Centers merged to create the Northwest Ohio Educational Service Center. The Northwest Ohio Educational Service Center operates under a locally-elected Board of Education elected from subdistricts within the four county area. The Board consists of nine members elected for staggered four year terms. The Educational Service Center has twenty-three administrators, one hundred eighty-five classified employees, and one hundred ninety-five certified employees who provide services to the local, exempted village, 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 Northwest Ohio Educational Service Center, this consists of general operations.

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

The Educational Service Center is associated with three jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Joint Vocational School, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. 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. Following are the more significant of the Educational Service Center's accounting policies.

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

**A. Basis of Presentation - Fund Accounting**

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

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

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

**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 agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.



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

**General Fixed Assets Account Group:**

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

**General Long-Term Obligations Account Group:**

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

**B. Measurement Focus and Basis of Accounting**

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

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.

**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.

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

The Educational Service Center legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. For 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 resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

**1. Appropriations**

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

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the General Fund must be approved by the Educational Service Center's Board.

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 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.

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

**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.

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

The General Fund receives all interest earnings. Interest revenue credited to the General Fund during fiscal year 1999 amounted to \$143,915, which includes \$68,911 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. Inventory**

Inventory is stated at cost. Cost is determined on a first-in, first-out basis. 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.

**F. Prepaid Items**

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

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are

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

capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred fifty dollars.

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

**H. Interfund Assets/Liabilities**

Short-term interfund loans are classified as "Interfund Receivables/Payables".

**I. Compensated Absences**

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

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

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

**J. Accrued Liabilities and Long-Term Obligations**

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

**K. Fund Balance Reserves**

The Educational Service Center records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventory and encumbrances.

**L. 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:

**Entitlements**

*General Fund*  
State Foundation Program  
*Special Revenue Fund*  
Transition Funding

**Non-Reimbursable Grants**

*Special Revenue Funds*  
Four County Alcohol, Drug Addiction, and Mental Health Services  
Training Ohio Parents  
Education Management Information System  
Public Preschool  
Parent Mentor  
Venture Capital  
Speech Innovation  
Migrant Education  
Eisenhower  
Title VI-B  
Vocational Pre-Employment  
Juvenile Justice  
Drug Free  
School Age Child Care  
Preschool/Handicapped  
Local Professional Development  
Goals 2000  
Entry Year  
Learn and Serve  
Wellness Skills

**Reimbursable Grants**

*Special Revenue Funds*  
Private Industry Council  
E-Rate  
Ohio School to Work

Grants and entitlements amounted to approximately 41 percent of the Educational Service Center's revenues during the 1999 fiscal year.

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

**M. Flow-Through Grants**

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

**N. 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.

**O. 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.

**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. CHANGE IN BASIS OF ACCOUNTING**

For the fiscal year ended June 30, 1999, the Educational Service Center has presented for the first time financial statements by fund type and account group in accordance with generally accepted accounting principles. In conjunction with this presentation, the Educational Service Center has changed its basis of accounting from a cash basis to the modified accrual basis of accounting for its governmental fund types and agency funds. This change required that certain adjustments be recorded to the July 1, 1998, fund balances as previously reported to reflect the prior year's effect of adopting these new accounting principles.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
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<u>Fund Type/Fund</u>	<u>Previously Stated Balance at 6/30/98</u>	<u>Adjustments</u>	<u>Restated Balance at 7/1/98</u>
Governmental:			
General	\$1,845,084	(\$1,120,181)	\$724,903
Special Revenue	441,687	53,834	495,521
Fiduciary:			
Agency	915,627	(915,627)	0

**4. ACCOUNTABILITY**

At June 30, 1999, the Vocational Pre-Employment and Juvenile Justice special revenue funds had deficit fund balances of \$15 and \$4,443, respectively, which were 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.

**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		
	<u>General</u>	<u>Special Revenue</u>
GAAP Basis	\$258,678	(\$136,507)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 1998, Received in Cash FY 1999	158,398	212,200
Accrued FY 1999, Not Yet Received in Cash	(479,441)	(9,362)

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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	General	Special Revenue
Expenditure Accruals:		
Accrued FY 1998, Paid in Cash FY 1999	(1,582,046)	(230,623)
Accrued FY 1999, Not Yet Paid in Cash	1,703,038	121,382
Prepaid Items	(6,976)	3,607
Advances In	2,050	34,500
Advances Out	(34,500)	(2,050)
Encumbrances Outstanding at Year End (Budget Basis)	(122,163)	(95,713)
Budget Basis	(\$102,962)	(\$102,566)

**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**  
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Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$308,966) and the bank balance was \$443,110. Of the bank balance, \$200,000 was covered by federal depository insurance and \$243,110 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or the Educational Service Center's agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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that exist in physical or book entry form. At June 30, 1999, the fair value of funds on deposit with STAR Ohio was \$3,788,513.

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	\$3,479,547	\$0
STAR Ohio	(3,788,513)	3,788,513
GASB Statement No. 3	(\$308,966)	\$3,788,513

**7. STATE FUNDING**

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

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

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

**8. RECEIVABLES**

Receivables at June 30, 1999, consisted of accounts, intergovernmental, and interfund receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30 were \$7,964. A summary of the principal items of intergovernmental receivables follows:

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	Amounts
General Fund	
Excess Cost	\$377,226
Community Alternative Funding	52,517
Contracted Services	39,794
Miscellaneous	1,940
Total General Fund	471,477
Special Revenue Funds	
Juvenile Justice	4,177
E-Rate	3,550
Wellness Skills	1,635
Total Special Revenue Funds	9,362
Total Intergovernmental Receivables	\$480,839

**9. FIXED ASSETS**

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

Asset Category	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Building	\$164,244	\$0	\$0	\$164,244
Furniture, Fixtures, and Equipment	1,034,920	101,967	36,527	1,100,360
Vehicles	303,818	80,573	0	384,391
Total	\$1,502,982	\$182,540	\$36,527	\$1,648,995

**10. INTERFUND ASSETS/LIABILITIES**

At June 30, 1999, the General Fund had an interfund receivable, in the amount of \$34,500. The Migrant Education and Juvenile Justice special revenue funds had an interfund payable, in the amount of \$28,000 and \$6,500, respectively.

**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. Coverage is provided by the Defiance, Fulton, and Henry County Commissioners for the building and contents in those counties. During fiscal year 1999, the Educational Service Center contracted for the following insurance coverages:

Coverages provided by Lehman Insurance Company for Williams County	
Office Equipment - Bryan Office	\$138,916

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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Coverages provided by Nationwide Insurance Company	
General Liability	
Per Occurrence	\$2,000,000
Total per Year	5,000,000
Umbrella Liability	
Per Occurrence	5,000,000
Aggregate	5,000,000
Auto - Non-Owners Liability	2,000,000
Auto Coverage	
Liability	2,000,000
Uninsured Motorist	2,000,000

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

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The Educational Service Center pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant 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 entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**12. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 1999 and 1998 were \$413,175 and \$720,843, respectively; 100 percent has been contributed for fiscal years 1999 and 1998.

**B. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 7.7 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 9.02 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 1999 and 1998 were \$188,861 and \$189,934, respectively; 80 percent has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal year 1998. The unpaid contribution for fiscal year 1999, in the amount of \$37,198, is recorded as a liability within the respective funds and the general long-term obligations account group.

**C. Social Security System**

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

**13. POST EMPLOYMENT 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.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$550,899 for fiscal year 1999.

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

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$210,061.

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

**14. EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty-five days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-six and one-fourth days for all employees.

**B. Health Care Benefits**

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program. Through this program, the Educational Service Center

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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offers medical, dental, and life insurance benefits. Depending upon the coverage selected, the employees share the cost of the monthly premium with the Board.

**15. LONG-TERM OBLIGATIONS**

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

	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Compensated Absences Payable	\$552,400	\$19,251	\$0	\$571,651
Intergovernmental Payable	54,936	55,539	54,936	55,539
Total	<u>\$607,336</u>	<u>\$74,790</u>	<u>\$54,936</u>	<u>\$627,190</u>

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

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

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**C. Four County Joint Vocational School**

The Four County Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from each of the city and exempted village school districts' elected boards. The degree of control exercised by the Educational Service Center is limited to its representation on the Board. The JVS possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Joint Vocational School, Michele Zeedyk, who serves as Treasurer, Route 1, Box 245A, Archbold, Ohio 43502.

**17. INSURANCE POOLS**

**A. Northern Buckeye Education Council Employee Insurance Benefits Program**

The Northern Buckeye Education Council Employee Insurance Benefits Program (the Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The Program is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

**B. Northern Buckeye Education Council 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 Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**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, 1999, the Educational Service Center received \$3,255,787 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.



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

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, 1999.

**B. Litigation**

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

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

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Receipts	Disburse- ments
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> <i>Passed through the State Department of Education</i>					
Title I Migrant Education Program	84.011	124297-MG-S1-98	\$374,568	\$50,282	\$155,400
		124297-MG-S1-98C	71,191	71,191	8,633
		124297-MG-S1-99	225,000	225,000	105,546
Total - Migrant Education Program				<u>346,473</u>	<u>269,579</u>
Title I OMEC Program		04753-MG-ST-97C	117,592	0	23,219
		124297-MG-ST-98	319,568	0	105,438
		124297-MG-ST-98C	62,688	55,000	55,384
		124297-MS-ST-99	444,000	300,000	306,535
Total - OMEC Program				<u>355,000</u>	<u>490,576</u>
Total - Migrant Education and OMEC				<u>701,473</u>	<u>760,155</u>
Title I ESEA Program	84.010	124297-C1-SS-99P	50,000	50,000	0
Special Education Cluster:					
Title VI-B Education of Handicapped	84.027	124297-6B-SF-98P	730,080	60,528	125,067
		124297-6B-SF-99P	826,584	826,584	826,584
Total - Title VI-B Grant				<u>887,112</u>	<u>951,651</u>
Preschool Grant	84.173	124297-PG-S1-98P	136,344	0	28,946
		124297-PG-S1-98B	142,467	142,467	112,711
Total - Preschool Grant				<u>142,467</u>	<u>141,657</u>
Total Special Educational Cluster				<u>1,029,579</u>	<u>1,093,308</u>
Dwight D. Eisenhower Math and Science Grant	84.281	047035-MS-S1-97	20,883	0	3,487
		047563-MS-S1-97	9,680	0	3,528
		050609-MS-S1-97	24,344	0	375
		124297-MS-S1-98	78,111	26,962	45,322
		124297-MS-S1-99	74,584	24,117	1,006
Total - Eisenhower Grant				<u>51,079</u>	<u>53,718</u>
Safe, Drug Free Schools Grant	84.186	124297-DR-S1-98	42,390	0	3,689
		124297-DR-S1-99	39,070	39,070	28,823
Total - Safe, Drug Free Schools Grant				<u>39,070</u>	<u>32,512</u>

(Continued)

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 1999  
(Continued)**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Receipts	Disburse- ments
Goals 2000 Partnership Grant	84.276	124297-G2-54-97	50,000	0	8,201
		124297-G2-S3-98	204,844	80,664	94,412
		124297-G2-S3-99	30,000	30,000	6,205
Total - Goals 2000 Partnership Grant				<u>110,664</u>	<u>108,818</u>
<i>Passed through Four County Joint Vocational School</i>					
Vocational Education - Special Needs	84.048	-	40,000	0	13,024
		-	35,000	35,000	35,000
Total - Vocational Education Grant				<u>35,000</u>	<u>48,024</u>
<i>Passed through Universal Service Administrative Co.</i>					
Telecommunications Act Grant	84.XXX	-	-	5,379	0
Total United States Department of Education				<u>2,022,244</u>	<u>2,096,535</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>					
<i>Passed through the State Department of Education</i>					
Learn and Serve America Grant	94.004	124297-SV-S2-99	3,000	3,000	768
<b>UNITED STATES DEPARTMENT OF LABOR</b>					
<i>Passed through the Northwest Ohio Private Industry Council</i>					
Earn and Learn Grant	17.250	B-P7-16-01-00	16,066	15,993	15,993
		B-P8-12-02-00	9,811	3,221	3,221
Total - Earn and Learn Grant				<u>19,214</u>	<u>19,214</u>
SBD Option IV Grant	17.250	O-P8-12-01-00	19,000	19,000	19,000
Total - Earn and Learn and SBD Option IV Grants				<u>38,214</u>	<u>38,214</u>
<i>Passed through the State Department of Education</i>					
Ohio School to Work Program	17.249	-	100,000	45,795	8,616
		-	36,000	36,000	35,407
Total - Ohio School to Work Grant				<u>81,795</u>	<u>44,023</u>
Total United States Department of Labor				<u>120,009</u>	<u>82,237</u>

(Continued)

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 1999  
(Continued)**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Receipts	Disburse- ments
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> <i>Passed through the Ohio Department of Human Services</i>					
School-Age Child Care Grant	93.673	124297-DC-S1-98	11,630	<u>0</u>	<u>7,103</u>
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>					
Community Alternative Funding	93.778	015-95	-	<u>227,977</u>	<u>0</u>
Total United States Department of Health and Human Services				<u>227,977</u>	<u>7,103</u>
<b>UNITED STATES DEPARTMENT OF JUVENILE JUSTICE AND DELINQUENCY</b> <i>Passed through the State Office of Criminal Justice Services</i>					
Juvenile Justice and Delinquency Prevention Act Grant Program	16.540	97-JJ-DP2-0398	25,661	17,071	17,150
		98-JJ-DP2-0398	17,107	4,277	10,688
		97-JJ-DP2-0407	25,967	6,492	1,154
Total United States Department of Juvenile Justice and Delinquency				<u>27,840</u>	<u>28,992</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<b><u>\$2,401,070</u></b>	<b><u>\$2,215,635</u></b>

*The notes to the schedule of federal awards are an integral part of this statement.*

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the Service Center's federal awards programs. The schedule has been prepared on the cash basis of accounting, except expenditures of assistance passed through the Northwest Ohio Private Industry Council which are presented on the accrual basis.

The supplemental schedules are prepared on the accrual basis.

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
SUPPLEMENTAL SCHEDULE**

**ANALYSIS OF COST LIMITATIONS AND BUDGET TO ACTUAL  
FOR THE YEAR ENDING JUNE 30, 1999**

CONTRACT NUMBER/COST CENTER	ALLOCATION	ADMINISTRATION MAXIMUM 8%	DIRECT TRAINING MINIMUM 72%	TRAINING RELATED & SUPPORTIVE SERVICES MAXIMUM 20%
<hr/>				
0-P8-12-01-00				
TOTAL ALLOCATION	\$19,000.00	\$0.00	\$19,000.00	\$0.00
Expenditures:				
Expenditures 7/1/98-6/30/99	\$19,000.00	\$0.00	\$19,000.00	\$0.00
Total Expenditures	19,000.00	0.00	19,000.00	0.00
Unexpended Funds	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Percentage of Allocation	0.00%	0.00%	0.00%	0.00%
Budget:				
FY99 Budget	\$19,000.00	\$0.00	\$19,000.00	\$0.00
Percentage Achieved	100.00%	0.00%	100.00%	0.00%
<hr/>				
B-P8-12-02-00				
TOTAL ALLOCATION	\$9,811.00	\$0.00	\$9,811.00	\$0.00
Expenditures:				
Expenditures 7/1/98-6/30/99	\$3,221.00	0.00	3,221.00	0.00
Total Expenditures	3,221.00	0.00	3,221.00	0.00
Unexpended Funds	6,590.00	0.00	6,590.00	0.00
Percentage of Allocation	67.17%	0.00%	67.17%	0.00%
Budget:				
FY99 Budget	9,811.00	\$0.00	\$9,811.00	\$0.00
Percentage Achieved	100.00%	100.00%	100.00%	0.00%

(Continued)

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
SUPPLEMENTAL SCHEDULE**

**ANALYSIS OF COST LIMITATIONS AND BUDGET TO ACTUAL  
FOR THE YEAR ENDING JUNE 30, 1999  
(Continued)**

CONTRACT NUMBER/COST CENTER	ALLOCATION	ADMINISTRATION MAXIMUM 8%	DIRECT TRAINING MINIMUM 72%	TRAINING RELATED & SUPPORTIVE SERVICES MAXIMUM 20%
<hr/>				
B-P7-16-01-00				
<hr/>				
TOTAL ALLOCATION	\$16,066.00	\$0.00	\$16,066.00	\$0.00
<hr/>				
Expenditures:				
Expenditures 7/1/97-6/30/98	\$73.00	\$0.00	\$73.00	\$0.00
Expenditures 7/1/98-6/30/99	15,993.00	0.00	15,993.00	0.00
Total Expenditures	\$16,066.00	\$0.00	\$16,066.00	\$0.00
Unexpended Funds	\$0.00	\$0.00	\$0.00	\$0.00
Percentage of Allocation	0.00%	0.00%	0.00%	0.00%
Budget:				
FY99 Budget	15,893.00	\$0.00	\$15,993.00	\$0.00
Percentage Achieved	100.00%	0.00%	100.00%	100.00%

Cost Categories - As defined by JTPA Regulations (627.440 and 631.13)



**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
SUPPLEMENTAL SCHEDULE**

**SCHEDULE OF VARIANCES  
FOR THE YEAR ENDING JUNE 30, 1999**

	PRIVATE INDUSTRY COUNCIL	AUDIT REPORT	VARIANCE
0-P8-12-01-00	\$ 19,000	\$ 19,000	\$ 0
B-P8-12-02-00	3,221	3,221	0
B-P7-16-01-00	15,993	15,993	0
Total CFDA #17.250	\$ 38,214	\$ 38,214	\$ 0

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Northwest Ohio Educational Service Center  
Fulton County  
602 South Shoop Avenue  
PO Box 552  
Wauseon, Ohio 43567-0552

To the Governing Board:

We have audited the financial statements of Northwest Ohio Educational Service Center, Fulton County, (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated February 11, 2000, in which we indicated that the Service Center changed its method of financial reporting. 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 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 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.

This report is intended for the information and use of the audit committee, governing board, 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 11, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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

Northwest Ohio Educational Service Center  
Fulton County  
602 South Shoop Avenue  
PO Box 552  
Wauseon, Ohio 43567-0552

To the Governing Board:

**Compliance**

We have audited the compliance of Northwest Ohio Educational Service Center, Fulton County, (the 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. The 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 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's compliance with those requirements.

In our opinion, the 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, 1999.

### **Internal Control Over Compliance**

The management of the 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 the use of the audit committee, governing board, 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 11, 2000

**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):	Title I - Migrant and OMEC CFDA # 84.011
<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.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER**

**FULTON 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**