



**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Putnam County Educational Service Center
336 East Main Street
PO Box 190
Ottawa, Ohio 45875-0190

To the Board of Education:

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

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Putnam County Educational Service Center, Putnam 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 January 27, 2000, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

Jim Petro
Auditor of State

January 27, 2000

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

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS:			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,465,723	\$ 267,912	\$ 5,695
Cash in Segregated Accounts			
Investment			
Receivables:			
Accounts	86		
Intergovernmental	110,430	70,664	
Accrued Interest	4,813		
Interfund Receivable	6,764		
Fixed Assets			
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	\$ 1,587,816	\$ 338,576	\$ 5,695
 LIABILITIES, FUND EQUITY AND OTHER CREDITS:			
Liabilities:			
Accounts Payable	\$ 3,004	\$ 4,994	\$ 0
Accrued Wages and Benefits	285,921	83,949	
Compensated Absences Payable	37,045	1,931	
Interfund Payable		6,764	
Intergovernmental Payable	258,833	34,695	
Undistributed Assets			
Capital Leases Payable			
Total Liabilities	584,803	132,333	0
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Net Assets Held in Trust			
Fund Balance:			
Reserved for Encumbrances	13,827	41,556	
Unreserved, Undesignated	989,186	164,687	5,695
Total Fund Equity and Other Credits	1,003,013	206,243	5,695
Total Liabilities, Fund Equity and Other Credits	\$ 1,587,816	\$ 338,576	\$ 5,695

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	Trust and Agency	General Fixed Assets	
\$ 16,163	\$ 0	\$ 0	\$ 1,755,493
190,001			190,001
375,526			375,526
			86
16,420			197,514
526			5,339
			6,764
	969,460		969,460
		254,840	254,840
\$ 598,636	\$ 969,460	\$ 254,840	\$ 3,755,023

\$ 1,099	\$ 0	\$ 0	\$ 9,097
2,239			372,109
1,342		233,965	274,283
			6,764
4,297		6,987	304,812
7,186			7,186
		13,888	13,888
16,163	0	254,840	988,139
	969,460		969,460
582,473			582,473
			55,383
			1,159,568
582,473	969,460	0	2,766,884
\$ 598,636	\$ 969,460	\$ 254,840	\$ 3,755,023

**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	
	General	Special Revenue
Revenues:		
Intergovernmental	\$ 1,082,353	\$ 1,231,675
Interest	82,040	
Tuition and Fees	1,557,172	
Gifts and Donations		
Customer Services	141,539	
Miscellaneous	47,201	
Total Revenues	2,910,305	1,231,675
Expenditures:		
Current:		
Instruction:		
Regular	123,497	47,815
Special	851,596	123,783
Vocational	54,665	
Adult/Continuing		17,948
Support Services:		
Pupils	751,981	155,724
Instructional Staff	731,961	633,136
Board of Education	17,188	
Administration	138,432	26,131
Fiscal	86,848	43,647
Operation and Maintenance of Plant	12,117	9,388
Pupil Transportation		12,181
Central Services		336
Non-Instructional Services		11,986
Capital Outlay	37,129	
Debt Service:		
Principal Retirement	1,212	
Interest and Fiscal Charges	584	
Intergovernmental		95,705
Total Expenditures	2,807,210	1,177,780
Excess of Revenues Over/(Under) Expenditures	103,095	53,895
Other Financing Sources:		
Inception of Capital Lease	15,100	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	118,195	53,895
Fund Balances at Beginning of Year	884,818	152,348
Fund Balances at End of Year	\$ 1,003,013	\$ 206,243

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

<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
<u>Capital Projects</u>		
\$	0	\$ 2,314,028
		82,040
		1,557,172
	252	252
		141,539
		47,201
	<u>252</u>	<u>4,142,232</u>
		171,312
		975,379
		54,665
		17,948
		907,705
	263,412	1,628,509
		17,188
		164,563
		130,495
		21,505
		12,181
		336
		11,986
		37,129
		1,212
		584
		95,705
	<u>263,412</u>	<u>4,248,402</u>
	<u>(263,160)</u>	<u>(106,170)</u>
		15,100
	(263,160)	(91,070)
	<u>268,855</u>	<u>1,306,021</u>
\$	<u>5,695</u>	\$ <u>1,214,951</u>

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

	Governmental Fund Types		
	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 1,007,855	\$ 1,076,792	\$ 68,937
Interest	30,000	82,160	52,160
Tuition and Fees	1,546,376	1,587,157	40,781
Gifts and Donations			
Customer Services	87,323	141,539	54,216
Miscellaneous	15,000	56,756	41,756
Total Revenues	<u>2,686,554</u>	<u>2,944,404</u>	<u>257,850</u>
Expenditures:			
Current:			
Instruction:			
Regular	135,459	124,025	11,434
Special	993,907	926,613	67,294
Vocational	64,978	59,997	4,981
Adult/Continuing			
Support Services:			
Pupils	897,021	812,664	84,357
Instructional Staff	1,127,343	797,664	329,679
Board of Education	34,320	17,190	17,130
Administration	458,809	147,167	311,642
Fiscal	187,799	87,227	100,572
Operation and Maintenance of Plant	27,500	17,117	10,383
Pupil Transportation			
Central Services	16,540	6,416	10,124
Non-Instructional Services			
Capital Outlay	12,029	12,029	0
Purchased Services			
Total Expenditures	<u>3,955,705</u>	<u>3,008,109</u>	<u>947,596</u>
Excess Expenditures Over Revenues	<u>(1,269,151)</u>	<u>(63,705)</u>	<u>1,205,446</u>
Other Financing Sources (Uses):			
Advances In	6,135	6,135	0
Advances Out	(7,135)	(6,764)	371
Total Other Financing Sources (Uses)	<u>(1,000)</u>	<u>(629)</u>	<u>371</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(1,270,151)</u>	<u>(64,334)</u>	<u>1,205,817</u>
Fund Balances at Beginning of Year	992,508	992,508	0
Prior Year Encumbrances Appropriated	277,643	277,643	0
Fund Balances at End of Year	<u>\$ 0</u>	<u>\$ 1,205,817</u>	<u>\$ 1,205,817</u>

Governmental Fund Types		
Special Revenue Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,680,824	\$ 1,208,125	\$ (472,699)
<u>1,680,824</u>	<u>1,208,125</u>	<u>(472,699)</u>
105,443	39,549	65,894
166,192	115,361	50,831
24,965	12,073	12,892
198,540	164,287	34,253
1,162,274	732,430	429,844
38,083	24,698	13,385
52,928	42,585	10,343
33,013	11,623	21,390
34,610	19,199	15,411
1,463	1,232	231
21,359	13,650	7,709
<u>60,943</u>	<u>60,943</u>	<u>0</u>
<u>1,899,813</u>	<u>1,237,630</u>	<u>662,183</u>
<u>(218,989)</u>	<u>(29,505)</u>	<u>189,484</u>
	6,764	6,764
	<u>(6,135)</u>	<u>(6,135)</u>
<u>0</u>	<u>629</u>	<u>629</u>
(218,989)	(28,876)	190,113
117,828	117,828	0
107,295	107,295	0
<u>\$ 6,134</u>	<u>\$ 196,247</u>	<u>\$ 190,113</u>

(Continued)

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

	Governmental Fund Types		
	Capital Projects Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 0	\$ 0	\$ 0
Interest			
Tuition and Fees			
Gifts and Donations	252	252	0
Customer Services			
Miscellaneous			
Total Revenues	252	252	0
Expenditures:			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Adult/Continuing			
Support Services:			
Pupils			
Instructional Staff	272,178	266,483	5,695
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central Services			
Non-Instructional Services			
Capital Outlay			
Purchased Services			
Total Expenditures	272,178	266,483	5,695
Excess Expenditures Over Revenues	(271,926)	(266,231)	5,695
Other Financing Sources (Uses):			
Advances In			
Advances Out			
Total Other Financing Sources (Uses)	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(271,926)	(266,231)	5,695
Fund Balances at Beginning of Year	26,529	26,529	0
Prior Year Encumbrances Appropriated	245,397	245,397	0
Fund Balances at End of Year	\$ 0	\$ 5,695	\$ 5,695

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

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 2,688,679	\$ 2,284,917	\$ (403,762)
30,000	82,160	52,160
1,546,376	1,587,157	40,781
252	252	0
87,323	141,539	54,216
15,000	56,756	41,756
<u>4,367,630</u>	<u>4,152,781</u>	<u>(214,849)</u>
240,902	163,574	77,328
1,160,099	1,041,974	118,125
64,978	59,997	4,981
24,965	12,073	12,892
1,095,561	976,951	118,610
2,561,795	1,796,577	765,218
34,320	17,190	17,130
496,892	171,865	325,027
240,727	129,812	110,915
60,513	28,740	31,773
34,610	19,199	15,411
18,003	7,648	10,355
21,359	13,650	7,709
12,029	12,029	0
60,943	60,943	0
<u>6,127,696</u>	<u>4,512,222</u>	<u>1,615,474</u>
<u>(1,760,066)</u>	<u>(359,441)</u>	<u>1,400,625</u>
6,135	12,899	6,764
<u>(7,135)</u>	<u>(12,899)</u>	<u>(5,764)</u>
<u>(1,000)</u>	<u>0</u>	<u>1,000</u>
(1,761,066)	(359,441)	1,401,625
1,136,865	1,136,865	0
630,335	630,335	0
<u>\$ 6,134</u>	<u>\$ 1,407,759</u>	<u>\$ 1,401,625</u>

**STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Investment Trust Fund</u>
Revenues:	
Interest Income	\$ <u>33,908</u>
Operating Expenses:	
Administration	<u>8,377</u>
Net Increase in Assets Resulting from Operations	<u>25,531</u>
Capital Transactions	(53,094)
Distributions to Participants	<u>(36,705)</u>
Net Decrease in Assets	(64,268)
Net Assets at Beginning of Year	<u>646,741</u>
Net Assets at End of Year	<u><u>\$ 582,473</u></u>

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

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

NOTE 1 - REPORTING ENTITY

The Putnam County Educational Service Center (the Educational Service Center) is located in Ottawa, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Columbus Grove, Continental, Fort Jennings, Kalida, Leipsic, Miller City-New Cleveland, Ottawa-Glandorf, Ottoville, and Pandora-Gilboa Local 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.

The Putnam County Educational Service Center operates under a locally-elected Board of Education of five members elected at-large for staggered four year terms. The Educational Service Center has 31 support staff employees and 52 certified teaching personnel that provide services to the local and exempted village school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Putnam County Educational Service Center, this includes general operations and student-related activities.

B. Component Units

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

The Educational Service Center is associated with five organizations which are defined as jointly governed organizations or insurance pools. These organizations include the Northwest Ohio Area Computer Services Cooperative (NOACSC), Blanchard Valley Cooperative Vocational Career Center, Vantage Joint Vocational School, NOACSC Workers' Compensation Group Rating Plan, and the Putnam County Schools Insurance Group.

Information about these organizations is presented in Notes 16 and 17 to the general-purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting

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

Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

Capital Projects Fund - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

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 - 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)

Investment Trust Fund - The investment trust fund is used to account for the activity in the Putnam County Medical Insurance Group Fund, an individual investment account for which the Educational Service Center serves as fiscal agent.

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 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: investment earnings, tuition, fees, charges for services, and grants.

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

The investment trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The accrual basis of accounting is utilized for reporting purposes by the investment trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

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

C. Budgetary Process

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

The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding 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 local board of education, under the supervision of the Educational Service Center, the amount from part (B) that is to be apportioned to their school district.

Appropriations:

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

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

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

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

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

During fiscal year 1999, investments were limited to nonnegotiable certificates of deposit.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 1999 amounted to \$82,040, which includes \$18,459 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. Fixed Assets and Depreciation

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

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

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

F. 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

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems

Public School Preschool

Entry Year Mentorship

Transitional

Interactive Video Distance Learning

Migrant Program

Safe Communities Program

Goals 2000 Schools/Higher Education

Eisenhower

Title VI-B School Age

Children First

Safe and Drug Free Schools

Title VI-B Preschool

School-to-Work Partnership

Capacity 2100+

Project Connect

21st Century

Early Intervention

Project Help

Capital Projects Fund

Telecommunity Grant

Grants and entitlements amounted to approximately 55 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

G. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables/payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

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

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. 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 vacation time when earned for all employees. The Educational Service Center records a liability for accumulated unused sick leave for classified employees who are at least forty years of age after ten years of current service and for certified employees who are at least forty years of age after fifteen years of current service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, 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 obligations account group to the extent that they will not be paid with current available expendable financial resources. Capital leases and long-term loans are reported as a liability of the general long-term obligations account group until due.

J. 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. Transfers in do not equal transfers out on the accompanying budget and actual statements due to a transfer to an agency fund that is not reflected on the accompanying statements.

K. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. A fund equity reserve has been established for encumbrances.

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

L. 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.

M. 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, results of operations, or cash flows 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.

NOTE 3 - 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 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 Governmental Fund Types			
	General	Special Revenue	Capital Projects
GAAP Basis	\$ 118,195	\$ 53,895	\$ (263,160)
Revenue Accruals:			
Accrued FY 1998, Received in Cash FY 1999	159,428	47,112	0
Accrued FY 1999, Not Yet Received in Cash	(115,330)	(70,664)	0

(Continued)

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

	General	Special Revenue	Capital Projects
(Continued)			
Expenditure Accruals:			
Accrued FY 1998, Paid in Cash FY 1999	(550,896)	(113,753)	(3,071)
Accrued FY 1999, Not Yet Paid in Cash	584,803	125,570	0
Advances In	6,135	6,764	0
Advances Out	(6,764)	(6,135)	0
Encumbrances Outstanding At Year End (Budget Basis)	(259,905)	(71,665)	0
Budget Basis	\$ (64,334)	\$ (28,876)	\$ (266,231)

NOTE 4 - 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's 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 Educational Service Center 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Association,

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

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
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 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.

During fiscal year 1999, investments were limited to certificates of deposit. All investments of the Educational Service Center had a maturity of two years or less.

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".

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$2,321,020 and the bank balance was \$2,415,495. Of the bank balance, \$1,395,635 was covered by federal depository insurance or collateral held by the financial institution in the Educational Service Center's name and \$1,019,860 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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".

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

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	\$ 1,945,494	\$ 375,526
Certificates of Deposit	<u>375,526</u>	<u>(375,526)</u>
GASB Statement No. 3	<u>\$ 2,321,020</u>	<u>\$ 0</u>

NOTE 5 – INDIVIDUAL INVESTMENT ACCOUNT

The Educational Service Center serves as fiscal agent for the Putnam County School Insurance Group. The Educational Service Center acquires specific investments on behalf of the Putnam County School Insurance Group. Investments are limited to certificates of deposit which are valued at cost and included as cash and cash equivalents on the accompanying financial statements. All interest on those investments accrues to the benefit of the Putnam County School Insurance Group. The carrying amounts and bank balances for the Educational Service Center and the individual investment account are disclosed in Note 4, "Deposits and Investments". Condensed financial information for the individual investment account follows:

Statement of Net Assets
June 30, 1999

Assets	
Cash in Segregated Accounts	\$ 190,001
Investments in Segregated Accounts	375,526
Intergovernmental Receivable	16,420
Accrued Interest	<u>526</u>
Total Assets	<u>\$ 582,473</u>
Net Assets Held in Trust	<u>\$ 582,473</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 1999

Revenues	
Interest Income	\$ 33,908
Expenses	
Administration	<u>8,377</u>
Net Increase in Assets Resulting from Operations	25,531
Capital Transactions	(53,094)
Distributions to Participant	<u>(36,705)</u>
Net Decrease in Assets	(64,268)
Net Assets Beginning of Year	<u>646,741</u>
Net Assets End of Year	<u>\$ 582,473</u>

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

NOTE 6 - STATE FUNDING

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

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

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999, consisted of accounts (billings for user charged services and fees), intergovernmental grants, accrued interest, and interfund receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. Accounts receivable at June 30 were \$86. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Lima City School District	\$ 3,057
Ottawa-Glandorf Local School District	85,963
Community Alternative Funding Source	9,350
Continental Local School District	300
Fort Jennings Local School District	300
Leipsic Local School District	300
Pandora-Gilboa Local School District	10,501
Bureau of Workers' Compensation	163
Putnam County Auditor	496
Total General Fund	110,430

(Continued)

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

	<u>Amounts</u>
(Continued)	
Special Revenue Funds	
Safe Communities Program	3,539
Project Connect STW	1,732
Partnership STW	457
21 st Century	16,562
E-Rate	5,133
Early Intervention	22,930
Title VI-B School Age	20,311
Total Special Revenue Funds	70,664
Agency Fund	
Putnam County Schools Insurance Group	16,420
Total Agency Fund	16,420
Total All Funds	\$197,514

NOTE 8 - FIXED ASSETS

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

Asset Category	Balance at 6/30/98	Additions	Deletions	Balance at 6/30/99
Furniture, Fixtures, and Equipment	\$ 390,277	\$ 344,546	\$ 7,248	\$ 727,575
Building	0	231,884	0	231,884
Vehicles	45,481	5,000	40,480	10,001
Totals	\$ 435,758	\$ 581,430	\$ 47,728	\$ 969,460

NOTE 9 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by Indiana Insurance Company:

 Commercial Property Contents – replacement \$ 255,000

Coverage provided by West American Insurance Company:

 Electronic Equipment Floater Policy 44,688

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

Coverage provided by West American Insurance Company:

Business Auto Coverage	1,000,000
Auto:	
Liability	1,000,000
Medical (per person)	5,000
Uninsured (per accident)	1,000,000

Coverage provided by Nationwide Insurance Company:

General Liability	
Per Occurrence	2,000,000
Total per Year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 1999, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each member pays the group rate.

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

The Educational Service Center joined together with school districts and other entities to form the Putnam County Schools Insurance Group (PCSIG), a public entity risk pool currently operating as a common risk management and insurance program for 11 member entities. The Educational Service Center pays its monthly premiums to the PCSIG and their designated insurance company. The PCSIG is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the PCSIG may assess additional charges to all participants.

The PCSIG provides employee health care benefits to all participants under a contingent premium policy. Under the policy, the provider pays claims up to 90 percent of the fully insured rate and the PCSIG reimburses the provider for claims up to 107 percent of the fully insured rate. Any claims in excess of the 107 percent are covered under a stop loss policy.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes

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

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, 1998 and 1997 were \$44,015, \$47,724 and \$41,521, respectively; 86.46 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999, in the amount of \$5,960, is recorded as a liability within the respective funds and the general long-term obligation account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ending June 30, 1999, 1998, and 1997, were \$112,978, \$211,448, and \$186,803, respectively; nothing has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1998, in the amount of \$112,978, is recorded as a liability within the respective funds.

C. Social Security System

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired 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
JUNE 30, 1999
(Continued)

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 \$150,638 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 \$42,999.

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

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Educational Service Center negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon 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 the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Health Care Benefits

The Educational Service Center has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. The Educational Service Center pays the premium of \$490.24 for family or \$190.97 for single coverage for the advanced plan and \$440.73 for family and \$171.65 for the preferred provider

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

plan. The Educational Service Center purchases insurance through the Putnam County Schools Insurance Group to provide health benefits at a lower rate.

NOTE 13 - CAPITAL LEASES

The Educational Service Center has entered into capitalization leases for a copier. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "capital outlay" and "inception of capital lease" in the funds which will be making the lease payments. Capital lease payments are reflected as funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures in the combined financial statements for governmental funds.

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$15,100. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$1,212 in the governmental funds.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 1999, were as follows:

Year Ending June 30,	Amounts
2000	\$ 3,592
2001	3,592
2002	3,592
2003	3,592
2004	2,298
Total minimum lease payments	16,666
Amount representing interest	(2,778)
Present value of minimum lease payments	<u>\$ 13,888</u>

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
Compensated Absences	\$ 229,630	\$ 4,335	\$ 0	\$ 233,965
Intergovernmental Payable	8,623	6,987	8,623	6,987
Capital Leases	0	15,100	1,212	13,888
Total General Long-Term Obligations	<u>\$ 238,253</u>	<u>\$ 26,422</u>	<u>\$ 9,835</u>	<u>\$ 254,840</u>

Compensated absences and the long term pension obligation will be paid from the fund from which the employees' salaries are paid.

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

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 6,764	\$ 0
Special Revenue Fund:		
Safe Communities	0	6,764
Total All Funds	\$ 6,764	\$ 6,764

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

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

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. The Educational Service Center paid NOACSC \$19,775 for services provided during the year. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main street, Lima, Ohio 45804.

B. Blanchard Valley Cooperative Vocational Career Center

The Blanchard Valley Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Putnam and Hancock County Educational Service Centers serve in an ex-official capacity for all meetings. To obtain financial information; write to the Findlay City School District, Pamela Barber, who serves as treasurer, at 227 South West Street, Findlay, Ohio 45840-3377.

C. Vantage Joint Vocational School

The Vantage Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven members, one member from the Mercer County Educational Service Center, one member from the Putnam County Educational Service Center, two members from the Paulding Exempted Village Board of Education, two members from the Paulding County Educational Service Center, and three members from the Van Wert County Educational Service Center. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Vantage Joint Vocational School, Ella Jackson, who serves as treasurer, at 818 North Franklin, Van Wert, Ohio 45891-1304.

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

NOTE 17 - INSURANCE PURCHASING POOLS

A. NOACSC Workers' Compensation Group Rating Plan

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

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

B. Putnam County Schools Insurance Group

The Putnam County Schools Insurance Group is a shared risk pool among nine local school districts, the Putnam County Board of MR/DD, and the Putnam County Educational Service Center. The insurance group is governed by an advisory committee consisting of each member's superintendent or designee and a teacher from each participating school district.

Financial information can be obtained from Kathleen Schmitz, who serves as treasurer, at P.O. Box 190, Ottawa, Ohio 45875.

NOTE 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 \$1,046,351 of school foundation support for its General Fund.

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

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

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

NOTE 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

The Educational Service Center is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Educational Service Center.

NOTE 20 – 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.

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

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

The State is solely responsible for any costs associated with the Foundation processing and EMIS systems.

To the best of management's knowledge and belief, as of January 27, 2000, the Educational Service Center has experienced no interruption of operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 Issue, matters may yet arise, and parties with whom the Educational Service Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

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

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity's Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Education</i>				
Employment Services and Job Training - School-to-Work Grants	17.249	WK-BE 98	\$ 3,763 58,040 15,687 126,988	\$ 3,681 57,824 15,708 127,224
Total Department of Labor			204,478	204,437
UNITED STATES DEPARTMENT OF TRANSPORTATION				
<i>Passed Through Ohio Department of Public Safety</i>				
State and Community Highway Safety	20.600	752 854	23,928 10,313 34,241	23,709 17,076 40,785
Total State and Community Highway Safety				
UNITED STATES DEPARTMENT OF EDUCATION				
Twenty-first Century Community Learning Centers	84.287B	990148	95,311	94,650
<i>Passed Through Ohio Department of Education</i>				
Migrant Education - Basic State Grant Program	84.011	MGS1-98 MGS1-99	19,963 117,000 136,963	123,178 11,984 135,162
Total Migrant Education - Basic State Grant Program				
Special Education Cluster				
Special Education - Grants to States	84.027	6BSF-98 6BSF-99	21,196 187,345 208,541	15,280 185,619 200,899
Total Special Education - Grants to States				
Special Education - Preschool Grants	84.173	PGS1-98 PGS1-99	0 20,280 20,280	2,376 17,866 20,242
Total Special Education - Preschool				
Total Special Education Cluster			228,821	221,141
Safe and Drug Free Schools and Communities Act	84.186	DRS1-97 DRS1-98 DRS1-99	0 21,232 36,304 57,536	741 27,809 23,877 52,427
Total Safe and Drug Free Schools and Communities Act				
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2S3-98	64,500	68,443
Eisenhower Professional Development State Grants	84.281	MSS1-97 MSS1-98 MSS1-99	0 0 25,111 25,111	4,810 7,547 406 12,763
Total Eisenhower Professional Development				
<i>Passed Through Ohio Department of Health</i>				
Special Education - Grants for Infants and Families	84.181	69-5-01-F-AN-392 69-5-01-F-AN-392	14,434 50,030 64,464	21,642 42,035 63,677
Total Early Intervention				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Project Help - Respite Care	93.656	Not Available	0	765
<i>Passed Through Putnam County Alcohol, Drug Addiction and Mental Health Services Board</i>				
Safe and Drug Free Schools and Communities Act	84.186	DFSP-98	0	6,734
Total Department of Education			672,706	655,762
Total Federal Financial Assistance			\$ 911,425	\$ 900,984

The accompanying notes are integral part of this schedule.

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SCHOOL-TO-WORK FISCAL AGENT

The Educational Service Center serves as fiscal agent for the Region 3 School-to-Work Alliance. The Alliance's financial activity is included as an Agency Fund on the Educational Service Center's general-purpose financial statements. The Educational Service Center disbursed \$188,909 in federal money on behalf of the Alliance, from the School-to-Work Grant. These federal disbursements have been properly excluded from the Educational Service Center's Schedule of Federal Awards Expenditures.



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

Putnam County Educational Service Center
336 East Main Street
PO Box 190
Ottawa, Ohio 45875-0190

To the Board of Education:

We have audited the financial statements of the Putnam County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance, which we have reported to the management of the Educational Service Center in a separate letter dated January 27, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 the management of the Educational Service Center in a separate letter dated January 27, 2000.

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

Jim Petro
Auditor of State

January 27, 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**

Putnam County Educational Service Center
336 East Main Street
PO Box 190
Ottawa, Ohio 45875-0190

To the Board of Education:

Compliance

We have audited the compliance of Putnam County Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. Putnam County Educational Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

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

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.

Jim Petro
Auditor of State

January 27, 2000

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education Grants to States - CFDA #84.027 Special Education Preschool Grant - CFDA #84.173 Goals 2000-State and Local Education Systematic Improvement - CFDA # 84.276
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All Others
(d)(1)(ix)	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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OFFICE OF THE AUDITOR

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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2000**