



**HAMILTON/CLERMONT COOPERATIVE ASSOCIATION
HAMILTON COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Hamilton/Clermont Cooperative Association
Hamilton County
7615 Harrison Ave
Cincinnati, Ohio 45231

To the Board of Directors:

We have audited the accompanying financial statements of the Hamilton/Clermont Cooperative Association, Hamilton County, Ohio, (the Association) as of and for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these 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 discussed in Note 1, the Association prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Association as of June 30, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 1999 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

This report is intended solely for the information and use of the management, the Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 9, 1999

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

Operating Cash Receipts:

Miscellaneous	<u>\$1,118,439</u>
Total Operating Cash Receipts	<u>1,118,439</u>

Operating Cash Disbursements:

Personal Services	1,040,466
Contractual Services	785,211
Supplies and Materials	116,216
Capital Outlay	599,496
Other Objects	<u>40,747</u>
Total Operating Cash Disbursements	<u>2,582,136</u>

Operating (Loss)	<u>(1,463,697)</u>
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Non-Operating Cash Receipts (Disbursements):

State Subsidy	1,143,223
Federal Subsidy	154,542
Advance From Hamilton Educational Service Center	150,000
Advance Repayment to Hamilton Educational Service Center	<u>(150,000)</u>

Total Non-Operating Cash Receipts (Disbursements)	<u>1,297,765</u>
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Net Receipts over Disbursements	<u>(165,933)</u>
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Fund balance, July 1	<u>906,619</u>
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Fund balance, June 30	<u><u>\$740,686</u></u>
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Reserve for Encumbrances, June 30	<u><u>\$122,545</u></u>
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The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 1998**

Operating Cash Receipts:

Charges for Services	\$989,177
Total Operating Cash Receipts	989,177

Operating Cash Disbursements:

Personal Services	780,612
Contractual Services	695,670
Supplies and Materials	96,148
Capital Outlay	418,886
Other Objects	5,435
Total Operating Cash Disbursements	1,996,751

Operating (Loss) (1,007,574)

Non-Operating Cash Receipts (Disbursements):

State Subsidy	1,123,880
Advance From Hamilton Educational Service Center	150,000
Advance Repayment to Hamilton Educational Service Center	(150,000)

Total Non-Operating Cash Receipts (Disbursements) 1,123,880

Net Receipts over Disbursements (1,157,574)

Fund balance, July 1 790,313

Fund balance, June 30 **\$906,619**

Reserve for Encumbrances, June 30 \$313,227

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Hamilton/Clermont Cooperative Association, Hamilton County, Ohio (the Association), is a Regional Council of Governments, organized under Chapter 167 pursuant to Section 3313.92 of the Ohio Revised Code. As the agent for the participating communities, the Association was established to provide services to educational providers at reduced costs. These services consist of providing educational accounting software and data processing services. The Hamilton County Educational Service Center, one of the member educational providers, is the fiscal agent for the Association.

The Association is a governmental jointly governed organization consisting of 24 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports the Association and shares in a percentage of equity based on the resources provided. The Association is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 24 school districts.

The Association's management believes these financial statements present all activities for which the Association is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash with Fiscal Agent

Cash received by the Association is deposited to the operating account of the Hamilton County Educational Service Center. The Hamilton County Educational Service Center serves as the fiscal agent for the Association by disbursing funds upon authorization of the Association.

D. Fund Accounting

The Association uses fund accounting to segregate cash that is restricted as to use. The financial statements present the Enterprise Fund activity at the combined level. For internal accounting purposes, the Association classifies its Enterprise Funds into the following types:

1. Operating Fund

The Operating Fund includes unrestricted expendable resources that are available to support the Hamilton/Clermont Cooperative Association's general operations. The majority of the funds collected in the operating fund consist of charges for services from member school districts.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
(Continued)

2. Grant Funds

The Grant Funds consist of grant monies received from federal and state governments. The purpose of this fund is to account for monies received from the applicable governments for reimbursement of any portion of the Association's costs to which the Association may be entitled.

E. Budgetary Process

The Hamilton County Educational Service Center is the fiscal agent for the Association; therefore, the Association's budgetary procedures follow the budgetary procedures of the Hamilton County Educational Service Center, as follows:

The Governing Board of the Hamilton County Educational Service Center adopts an annual budget for all fund types. The specific timetable is as follows:

In June, the Treasurer submits to the Governing Board a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In August the Board adopts a permanent budget. By no later than August 31, the board-adopted budget is filed with the Ohio Department of Education using special form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated as Estimated Resources. The Budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Governing Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals.

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 Governing Board.

1. Appropriations

The financial activity of the Association is appropriated as approved by the Governing Board of the Hamilton County Educational Service Center. The Ohio Revised Code does not require the Association to appropriate funds.

2. Encumbrances

The Association voluntarily reserves (encumbers) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
(Continued)

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Association.

2. CASH WITH FISCAL AGENT

In accordance with Ohio Revised Code, the Association's cash is held and invested by the Treasurer of the Hamilton County Educational Service Center, who acts as custodian for Association monies. The Association's assets are held in the Hamilton County Educational Service Center's cash and investment pool, and are valued at the Treasurer's reported carrying amount. The Association's carrying amounts of cash on deposit with the Hamilton County Educational Service Center at June 30, 1999 and 1998 was \$740,686 and \$906,619, respectively.

The Treasurer of the Hamilton County Educational Service Center, as the ultimate fiscal agent for the Association, is responsible for maintaining adequate depository collateral for all funds in the Service Center's pooled and deposit accounts.

3. RETIREMENT SYSTEMS

Full-time Association employees belong to the State Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, SERS members contributed 9% of their gross salaries. The Association contributed an amount equal to 14% of participants' gross salaries. The Association has paid all contributions required through June 30, 1999.

4. RISK MANAGEMENT

The Hamilton/Clermont Cooperative Association 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. The Association fell under the policy coverages of the Hamilton County Educational Service Center, who carries insurance with the following companies:

<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	Nationwide Insurance Company
Property	The Cincinnati Insurance Company
General Liability	Nationwide Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$2,000,000 each occurrence	\$250 collision
Property	\$1,912,650 each occurrence	\$500 each loss
General Liability	\$2,000,000 each occurrence \$5,000,000 general aggregate	

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999 AND 1998
(Continued)

5. YEAR 2000 ISSUE

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

The Ohio Department of Education (ODE), Division of Information Management Service (IMS) has contracted with the Northwest Ohio Computer Association (NWOCA) for services as a Software Support Site. As part of this agreement, NWOCA maintains the State Developed Software by performing program changes under the direction of IMS. The Division of Information Management Services is responsible for designing, in cooperation with NWOCA, all state software. IMS is also responsible for approving all design work prior to code generation and approving all programming before distribution. All materials, including source code, developed for IMS are the property of IMS. All the other 22 Ohio School Data Acquisition Sites (DAS) are provided this software to process school district data at their site.

The H/CCA has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary for conducting operations. They have identified such systems as being:

- financial reporting, payroll and employee benefits, and billing
- computer hardware (routers and servers) used in the H/CCA operations of providing services to the member school districts

The Hamilton County Educational Service Center (HCESC) is the fiscal agent for the H/CCA. The state software applications for H/CCA are processed through the HCESC's accounting system. The HCESC is responsible for remediating their own systems.

According to the vendor statements obtained in 1999, the routers and servers were made year 2000 compliant.

The H/CCA has also identified the following systems that relate to external entities requiring Year 2000 remediation:

- The State of Ohio distributes a substantial sum of money to the H/CCA in the form of state grant payments. Further, the State processes a significant amount of financial and non-financial information for the H/CCA through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems.
- The H/CCA processes transactions with Fifth-Third Bank. The Bank is responsible for remediating their systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the H/CCA is or will be Year 2000 ready, that the H/CCA's remediation efforts will be successful in whole or in part, or that parties with whom the H/CCA does business will be Year 2000 ready.

6. ADVANCES FROM EDUCATIONAL SERVICE CENTER

The H/CCA annually received a \$150,000 cash advance from the Hamilton Educational Service Center in the 1999 and 1998 fiscal years. The advance received in fiscal year 1998 was repaid by H/CCA in fiscal year 1999, and the advance received in fiscal year 1999 was repaid by H/CCA in fiscal year 2000.



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

Hamilton/Clermont Cooperative Association
Hamilton County
7615 Harrison Ave
Cincinnati, Ohio 45231

To the Board of Directors:

We have audited the accompanying financial statements of the Hamilton/Clermont Cooperative Association, Hamilton County, Ohio (the Association), as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated December 9, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Association'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 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 Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Association's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-10431-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Association in a separate letter dated December 9, 1999.

Hamilton/Clermont Cooperative Association
Hamilton County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 9, 1999

**SCHEDULE OF FINDINGS
JUNE 30, 1999 AND 1998**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10431-001
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Reportable Condition

In order to ensure minimal disruption to services, the Association should maintain a comprehensive disaster recovery plan that identifies procedures to perform which permit the Association to continue processing information in the event of a disaster.

The Association currently does not have a formal disaster recovery plan to follow in the event of a possible interruption in computer service. This could result in delays in recovery and a longer than necessary disruption in service.

An elaborate plan is not necessary; however, the following tasks should be performed to ensure efficient recovery if a disaster occurs. We recommend, at a minimum, the following be completed:

- Arrangements for contingency data processing on compatible hardware and software;
- Key individuals at the Association to be contacted, their phone numbers and their role in the recovery;
- Key vendor contacts and their phone numbers; and
- The location of backup data and source documents.

Several copies of this plan should be kept at an off-site location in the event that the on-site copies are destroyed during a disaster. In addition, the plan should be updated and tested periodically to ensure that it is current.



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HAMILTON/CLERMONT COOPERATIVE ASSOCIATION

HAMILTON 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
JANUARY 25, 2000**