



GENERAL PURPOSE FINANCIAL STATEMENT

of the

Pickaway County Educational Service Center

for the

Fiscal Year Ended June 30, 1999

Prepared By

Shannon Clark, Treasurer

139 W. Franklin Street

Circleville, Ohio



GENERAL PURPOSE FINANCIAL STATEMENT

of the

Pickaway County Educational Service Center

for the

Fiscal Year Ended June 30, 1999

Prepared By

Shannon Clark, Treasurer

139 W. Franklin Street

Circleville, Ohio

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
TABLE OF CONTENTS

INTRODUCTORY SECTION

List of Principal Officials 1
Independent Auditors' Report ii

FINANCIAL SECTION

General Purpose Financial Statements

Combined Balance Sheet - All Fund Types and Account Groups1
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
- All Governmental Fund Types2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
- Budget and Actual - All Governmental Fund Types3 - 4
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings -
All Proprietary Fund Types5
Combined Statement of Cash Flows - All Proprietary Fund Types6
Notes to the General Purpose Financial Statements7 - 28
Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards* 29 - 30
Findings Related to the Financial Statements Required to be Reported
in Accordance with GAGAS..... 31
Status of Prior Audit Findings and Citations..... 32
Conclusion Statement 33

**Pickaway County Educational Service Center
List of Principal Officials**

June 30, 1998

BOARD OF EDUCATION	TERM
Donald Strous. President	1998 - 2001
Nelson Jones. Vice President	1996 - 1999
H. Eugene Lindsey. Member	1998 - 2001
Charles SteinHauser. Member	1998 - 1999
Betty Stickel. Member	1998 - 2001

TREASURER
Shannon Clark

ADMINISTRATION
David L. Beavers. Superintendent
Jill Riddle. Assistant Superintendent/Supervisor
C. Robert Debo. Administrative Assistant
Otis Adkins. Supervisor
Donnie Musick. Supervisor



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398

Board of Education
Pickaway County Educational Service Center
Circleville, Ohio

We have reviewed the Independent Auditor's Report of the Pickaway County Educational Service Center, Pickaway County, prepared by Jones, Cochenour & Co., for the audit period July 1, 1998 through June 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Pickaway County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a horizontal line.

JIM PETRO
Auditor of State

December 27, 1999



INDEPENDENT AUDITORS' REPORT

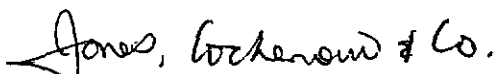
Board of Education
Pickaway County Educational Service Center
Circleville, Ohio

We have audited the accompanying general purpose financial statements of Pickaway County 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 Pickaway County 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 aspects, the financial position of Pickaway County Educational Service Center, as of June 30, 1999, and the results of its operations and cash flows of its proprietary fund types 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 November 17, 1999 on our consideration of Pickaway County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.


Jones, Cochenour & Co.
November 17, 1999

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

	Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Type	Account Groups		Totals 1999
	General	Special	Internal	Agency	General	General	(Memorandum Only)
		Revenue	Service		Fixed Assets	Long Term Debt	
Assets and Other Debits:							
Equity in Pooled Cash and Investments	\$ 490,868	100,684	63,735	197,271	0	0	\$ 852,558
Intergovernmental Receivables	10,527	24,826	5,099	0	0	0	40,452
Accounts Receivable	5,565	4,520	0	0	0	0	10,085
Interfund Receivable	27,000	0	0	0	0	0	27,000
Property, Plant, and Equipment, net where applicable	0	0	7,101	0	293,360	0	300,461
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	114,469	114,469
Total Assets and Other Debits	\$ 533,960	130,030	75,935	197,271	293,360	114,469	\$ 1,345,025
Liabilities:							
Intergovernmental Payables	\$ 489	0	207	155,631	0	3,134	\$ 159,461
Accounts Payable	2,975	10,511	450	8,663	0	0	22,599
Interfund Payable	0	27,000	0	0	0	0	27,000
Accrued Salaries and Benefits	34,121	3,070	10,391	0	0	0	47,582
Due to Other	0	0	0	32,977	0	0	32,977
Compensated Absences Payable	52,543	3,400	0	0	0	111,335	167,278
Total Liabilities	90,128	43,981	11,048	197,271	0	114,469	456,897
Fund Equity and Other Credits:							
Investment in General Fixed Assets	0	0	0	0	293,360	0	293,360
Retained Earnings	0	0	64,887	0	0	0	64,887
Fund Balances:							
Reserved for Encumbrances	213	64,730	0	0	0	0	64,943
Unreserved Fund Balance	443,619	21,319	0	0	0	0	464,938
Total Fund Balances	443,832	21,319	0	0	0	0	465,151
Total Fund Balances/Retained Earnings	443,832	86,049	64,887	0	293,360	0	888,128
Total Liabilities, Fund Equity, and Other Credits	\$ 533,960	130,030	75,935	197,271	293,360	114,469	\$ 1,345,025

See Accompanying Notes to the General Purpose Financial Statements.

Pickaway County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
All Governmental Fund Types
Year Ended June 30, 1999

	<u>Governmental Fund</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
REVENUES:			
Revenue from Local Sources			
Earnings on Investments	\$ 31,075	0	\$ 31,075
Extracurricular Activities	495	0	495
Miscellaneous	108,071	62,741	170,812
Revenue from Intermediate Sources			
Restricted Grants-in-Aid	0	20,856	20,856
Revenue for/on Behalf of District	1,463	1,838	3,301
Revenue from State Sources			
Unrestricted Grants-in-Aid	1,282,273	25,589	1,307,862
Restricted Grants-in-Aid	0	167,737	167,737
Revenue from Federal Sources			
Unrestricted Grants-in-Aid	112,166	0	112,166
Restricted Grants-in-Aid	0	248,021	248,021
Total Revenue	1,535,543	526,782	2,062,325
EXPENDITURES:			
Instruction			
Regular Instruction	27,406	0	27,406
Special Instruction	49,817	0	49,817
Adult/Continuing Instruction	0	60,106	60,106
Other Instruction	0	4,477	4,477
Supporting Services			
Supporting Services-Pupils	624,183	110,036	734,219
Supporting Services-Instructional Staff	428,017	189,293	617,310
Supporting Services-Board of Education	13,328	0	13,328
Supporting Services-Administration	150,682	348	151,030
Fiscal Services	60,276	8,054	68,330
Operation & Maintenance of Plant	24,593	330	24,923
Supporting Services-Central	960	115,580	116,540
Total Expenditures	1,379,262	488,224	1,867,486
Excess (Deficiency) of Revenues Over (Under) Expenditures	156,281	38,558	194,839
Other Financing Sources and Uses:			
Transfers-In	5,000	2,500	7,500
Other Sources	60	167	227
Transfers-Out	(2,500)	(5,000)	(7,500)
Net Other Financing Sources	2,560	(2,333)	227
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursements and Other Uses	158,841	36,225	195,066
Beginning Fund Balance	284,991	49,824	334,815
Ending Fund Balance	\$ 443,832	86,049	\$ 529,881

See Accompanying Notes to the General Purpose Financial Statements.

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance	Revised Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)
Revenues:						
Earnings on Investment	\$ 30,500	29,906	(594)	0	0	\$ 0
Extracurricular Activities	495	469	(26)	0	0	0
Miscellaneous	125,000	118,468	(6,532)	77,809	59,455	(18,354)
Restricted Grants-in-Aid	0	0	0	20,856	20,856	0
Revenue for/on Behalf of District	5,000	1,123	(3,877)	1,908	1,908	0
State Unrestricted Grants-in-Aid	1,294,214	1,294,214	0	26,000	25,589	(411)
State Restricted Grants-in-Aid	0	0	0	168,737	167,737	(1,000)
Federal Unrestricted Grants-in-Aid	120,238	100,238	(20,000)	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	403,128	223,197	(179,931)
Total Revenue	1,575,447	1,544,418	(31,029)	698,438	498,742	(199,696)
Expenditures:						
Regular Instruction	35,900	27,406	8,494	0	0	0
Special Instruction	50,874	50,075	799	0	0	0
Adult/Continuing Instruction	0	0	0	78,818	60,299	18,519
Other Instruction	0	0	0	4,550	4,550	0
Support Services-Pupils	694,585	611,452	83,133	131,002	107,968	23,034
Support Services-Instructional Staff	437,640	423,135	14,505	373,115	244,967	128,148
Support Services-Board of Ed.	19,840	13,349	6,491	0	0	0
Support Services-Administration	156,960	151,594	5,366	348	348	0
Fiscal Services	71,879	60,561	11,318	8,810	8,054	756
Operation & Maint. Of Plant	45,429	24,821	20,608	500	372	128
Support Services-Central	1,000	960	40	156,607	125,479	31,128
Total Expenditures	1,514,107	1,363,353	150,754	753,750	552,037	201,713
Excess of Revenue Over (Under) Expenditures	61,340	181,065	119,725	(55,312)	(53,295)	2,017
Other Financing Sources (Uses):						
Transfers-In	0	5,000	5,000	2,500	2,500	0
Advances-In	0	13,000	13,000	0	38,000	38,000
Refund of Prior Years Expense	11,000	9,436	(1,564)	231	231	0
Transfers-Out	0	(2,500)	(2,500)	0	(5,000)	(5,000)
Advances-Out	0	(38,000)	(38,000)	0	(13,000)	(13,000)
Total Other Sources (Uses)	11,000	(13,064)	(24,064)	2,731	22,731	20,000
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	72,340	168,001	95,661	(52,581)	(30,564)	22,017
Beginning Fund Balance	312,479	312,479	0	53,520	53,520	0
Prior Year Carry Over	2,425	2,425	0	63	63	0
Ending Fund Balance	\$ 387,244	482,905	95,661	1,002	23,019	\$ 22,017

See Accompanying Notes to the General Purpose Financial Statements.

(Continued)

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

	<u>Totals (Memorandum Only)</u>		
	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Earnings on Investment	\$ 30,500	29,906	\$ (594)
Extracurricular Activities	495	469	(26)
Miscellaneous	202,809	177,923	(24,886)
Restricted Grants-in-Aid	20,856	20,856	0
Revenue for/on Behalf of District	6,908	3,031	(3,877)
State Unrestricted Grants-in-Aid	1,320,214	1,319,803	(411)
State Restricted Grants-in-Aid	168,737	167,737	(1,000)
Federal Unrestricted Grants-in-Aid	120,238	100,238	(20,000)
Federal Restricted Grants-in-Aid	403,128	223,197	(179,931)
Total Revenue	2,273,885	2,043,160	(230,725)
Expenditures:			
Regular Instruction	35,900	27,406	8,494
Special Instruction	50,874	50,075	799
Adult/Continuing Instruction	78,818	60,299	18,519
Other Instruction	4,550	4,550	0
Support Services-Pupils	825,587	719,420	106,167
Support Services-Instructional Staff	810,755	668,102	142,653
Support Services-Board of	19,840	13,349	6,491
Support Services-Administration	157,308	151,942	5,366
Fiscal Services	80,689	68,615	12,074
Operation & Maint. Of Plant	45,929	25,193	20,736
Support Services-Central	157,607	126,439	31,168
Total Expenditures	2,267,857	1,915,390	352,467
Excess of Revenue Over			
(Under) Expenditures	6,028	127,770	121,742
Other Financing Sources (Uses):			
Transfers-In	2,500	7,500	5,000
Advances-In	0	51,000	51,000
Refund of Prior Years Expense	11,231	9,667	(1,564)
Transfers-Out	0	(7,500)	(7,500)
Advances-Out	0	(51,000)	(51,000)
Total Other Sources (Uses)	13,731	9,667	(4,064)
Excess of Revenues & Other Financing			
Sources Over (Under) Expenditures			
and Other Financing Uses	19,759	137,437	117,678
Beginning Fund Balance	365,999	365,999	0
Prior Year Carry Over	2,488	2,488	0
Ending Fund Balance	<u>\$ 388,246</u>	<u>505,924</u>	<u>\$ 117,678</u>

See Accompanying Notes to the General Purpose Financial Statements.

Pickaway County Educational Service Center
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types
Year Ended June 30, 1999

	Internal Service
Operating Revenues:	
Tuition	\$ 83,790
Total Operating Revenue	83,790
Operating Expenses:	
Personal Services	79,102
Employee Benefits	12,623
Purchased Services	23,089
Supplies and Materials	6,058
Other Expenses	156
Depreciation Expense	835
Total Operating Expenses	121,863
Operating Loss	(38,073)
Non-Operating Revenues:	
Restricted Grants in Aid	40,000
Total Non-Operating Revenues	40,000
Net Income Before Operating Transfers	1,927
Beginning Retained Earnings	62,960
Retained Earnings at End of Year	\$ 64,887

See Accompanying Notes to the General Purpose Financial Statements.

**Pickaway County Educational Service Center
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 Year Ended June 30, 1999**

	<u>Internal Service</u>
Cash Flows from Operating Activities	
Operating Loss	\$ (38,073)
Depreciation	835
Adjustments to Reconcile Operating Gain to Net Cash provided by Operating Activities:	
Net Increase in Assets:	
Intergovernmental Receivable	(2,238)
Net Increase in Liabilities:	
Intergovernmental Payable	207
Accounts Payable	406
Accrued Wages and Benefits	<u>9,973</u>
Net Adjustments	<u>8,348</u>
Net Cash Used in Operating Activities	(28,890)
Cash Flows from Noncapital Activities:	
Operating Grants from Intermediate Sources	<u>40,000</u>
Net Cash Provided by Noncapital Financing Sources	40,000
Net Increase in Cash & Cash Equivalents	11,110
Cash and Cash Equivalents at Beginning of Year	<u>52,625</u>
Cash and Cash Equivalents at End of Year	<u>\$ 63,735</u>

See Accompanying Notes to the General Purpose Financial Statements.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a County School District as defined by Section 3313 of the Ohio Revised Code.

The Center is governed by a five member Governing Board elected by the citizens of Pickaway County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves three local school districts: Logan Elm Local, Teays Valley Local, and Westfall Local as provided by S.B. 140, O.R.C. Section 3313.483. Circleville City School District and other school districts outside Pickaway County are served on an individual contract basis for various services.

The Center is located in Circleville, Ohio and is staffed by thirty-nine certified and eighteen classified personnel. The Pickaway County commissioners, as required by State statute, provide the offices for the use of the Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable. This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

B. Fund Accounting

The 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 government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund - This fund 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 Center for any purpose provided it is expended or transferred according to the bylaws of the Center and the laws of the State of Ohio.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Proprietary Fund Types

Proprietary funds are used to account for the Center's ongoing activities which are similar to those found in the private sector. The following is the proprietary fund type:

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the Center on a cost reimbursement basis. The Center currently has one Internal Service Fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the Center's fixed assets.

General Long-Term Debt Account Group - This account group is used to account for all of the Center's long-term obligations.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting

The modified accrual basis of accounting is followed for Governmental Funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

- 1) Only current assets and current liabilities are generally included on their balance sheets.
- 2) Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.
- 3) Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the Center is 60 days after year end.
- 4) Expenditures are recognized in the period in which the fund liability is incurred with the following exceptions: general long term obligation principal and interest are reported only when due; the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

Agency fund assets and liabilities are recognized on the modified accrual basis of accounting.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education no later than September 8.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

Appropriations

An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types (GAAP basis).

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

E. Cash and Cash Equivalents

Cash received by the Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments". During the fiscal year all investments were limited to STAR Ohio.

Investments are reported at cost except for investments in STAR Ohio which are reported at fair value. Fair value is based on quoted market prices.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 1998-99. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 1999 totaled \$31,075.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Taxes

A county educational service center does not itself levy taxes. However, a county educational service center Governing Board may serve as the taxing authority for a county school financing district as authorized by the Ohio Revised Code 135.01 (D). The Center does not currently serve as a taxing authority.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Center maintains a capitalization threshold of three hundred dollars.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment and furnishings in the proprietary fund type is computed using the straight-line method over an estimated useful life of the assets varying from eight to twenty years.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, 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 Center currently participates in several State and Federal programs, categorized as follows:

Entitlements:

General Fund

State Foundation Program

Special Revenue Funds

Educational Management Information Systems

Non-Reimbursable Grants:

Special Revenue Funds

Instructional Media Center Grant

Bus Drive Safety Grant

Health/Speech Subsidy

Child Abuse Prevention Grant

TOPS Grant

Parent Mentor Program

ABLE Grant

Library Grant

Social Work Grant

Grants and entitlements amounted to approximately 89% of the Center's operating revenue during the 1999 fiscal year.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

J. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 1999 the Center had no long-term interfund loans.

K. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group.

L. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. The fair value of long term debt approximates the carrying amount.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1. Summary of Significant Accounting Policies (continued)

M. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Fund Balance Reserves

Reserved Fund Balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund Balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

O. Memorandum Only - Total Columns

Total columns on the general purposes financial statements are captioned "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.

P. Accounts Payable

The fair value and carrying value of trade accounts payable are approximately the same.

Q. Use of Estimates in Preparation of Financial Statements

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 statement and accompanying notes. Actual results could differ from those estimates.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types</i>		
	General Fund	Special Revenue
GAAP Basis	\$ 158,841	\$ 36,225
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	13,875	(28,040)
Due to Expenditures:		
Net Adjustments to Expenditure	15,909	(63,813)
Due to Other Sources/Uses	(20,624)	25,064
Budget Basis	\$ 168,001	\$ (30,564)

Note 3. Accountability and Compliance

Pursuant to Section 117.11(A) of the Revised Code, Jones, Cochenour & Co., Independent Auditors, performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

Note 4. Cash and Cash Equivalents

State statutes classify monies held by the 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 Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 4. Cash and Cash Equivalents (continued)

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 pass book accounts.

Protection of 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
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 Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys 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 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.

**Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999**

Note 4. Cash and Investments (continued)

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 year end, the carrying amount of the Center's deposits was \$183,862 and the bank balance was \$263,338. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$163,338 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

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

	Carrying Amount	Fair Value
STAR Ohio	\$ 668,696	\$ 668,696

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 Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 4. Cash and Investments (continued)

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No.9	\$ 852,558	
Investments:		
Star Ohio	(668,696)	668,696
GASB Statement No.3	<u>\$ 183,862</u>	<u>\$ 668,696</u>

Note 5. Receivables

Receivables at June 30, 1999 consisted of tuition and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
CAFS Subsidy	\$ 10,187
ABLE	340
Total General Fund	<u>10,527</u>
Special Revenue Fund:	
Social Work Grant	24,826
Proprietary Fund:	
PASS Subsidy	<u>5,099</u>
Grand Total	<u>\$ 40,452</u>

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 6. Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 1999:

	General Fixed Assets June 30, 1998	Additions	Deletions	General Fixed Assets June 30, 1999
Furniture and Equipment	\$ 284,858	9,957	1,455	\$ 293,360

The following is a summary of the proprietary funds equipment at June 30, 1999:

Furniture and Equipment	\$ 8,348
Less: Accumulated Depreciation	(1,247)
Net Fixed Assets	\$ 7,101

Note 7. Defined Benefit Pension Plans

A. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent. At June 30, 1998 (the latest information available) 10.5 percent was allocated to fund the pension obligation and 3.5 percent to fund health care. Prior to July 1, 1998, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$151,817, \$132,341, and \$131,818, respectively; nothing has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$151,817 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 7. Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998 (the latest information available), 9.02 percent was the portion used to fund pension obligations and 4.98 percent to fund health care. 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 Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$28,475, \$19,477, and \$17,655, respectively; 100 percent has been contributed for fiscal year 1999, 1998 and 1997. \$3,134 representing the unpaid surcharge contribution for fiscal year 1999, is recorded as a liability within the general long-term obligations account group.

C. Social Security

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, no members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 8. Postemployment Benefits

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 1998 (the latest information available), the Board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund (an increase from 2 percent). For the Center, this amount equaled \$37,954 during fiscal 1999.

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 8. Postemployment Benefits (continued)

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 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, and 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 fiscal year 1998 (the latest information available), employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 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 (the latest information available). SERS has approximately 50,000 participants currently receiving health care benefits. For the Center, the amount to fund health care benefits, including the surcharge, equaled \$13,263 during the 1999 fiscal year.

Note 9. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from Center Policy and State laws. Only personnel who are under a full year contract (240 days) are eligible for vacation time.

Vacation

Certified employees earn twenty days of vacation per year, depending upon length of service. Employees can accumulate a maximum vacation day balance of thirty days. Accumulated, unused vacation time is paid to employees upon termination of employment up to a maximum of twenty days.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
0 - 5	10
5+ - 10	15
10+ - Beyond	20

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 9. Compensated Absences (continued)

Classified employees can accumulate a maximum vacation day balance of thirty days. Ten days of accumulated vacation days may be carried over into the next vacation year. Accumulated, unused vacation time is paid to employees upon termination of employment up to a maximum of twenty days.

Severance

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 225 days.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 45 days.

Note 10. Risk Management

General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate. The Center maintains business auto coverage for non-owned autos in the amount of \$2,000,000.

The Center maintains replacement cost insurance on building contents in the amount of \$207,800.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reduction of coverage from the prior years.

Workers Compensation-Public Entity Risk Pool

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 10. Risk Management (continued)

to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Health Insurance

The Center provides life insurance and accidental death and dismemberment insurance to its employees through the Metropolitan Educational Center insurance purchasing program. The Center has elected to provide employee medical/surgical benefits through United Health Care, a fully funded program. Dental coverage is provided through Coresource.

Note 11. Long Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 1999, are as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Intergovernmental Payable	\$ 2,706	3,134	2,706	\$ 3,134
Compensated Absences Payable	111,732	111,335	111,732	111,335
Total	<u>\$ 114,438</u>	<u>114,469</u>	<u>114,438</u>	<u>\$ 114,469</u>

Note 12. Interfund Transactions

At June 30, 1999, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

Interfund Receivables/Payables:

	Receivables	Payables
General Fund	\$ 27,000	\$ 0
Special Revenue Funds	0	27,000
	<u>\$ 27,000</u>	<u>\$ 27,000</u>

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 13. Jointly Governed Organizations

Metropolitan Educational Council - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Central Ohio Special Education Regional Resource Center (COSERRC)

The Pickaway County Educational Service Center passes a motion each year to become members of COSERRC. The superintendent of the Center is appointed by the Pickaway County Educational Service Center to be the delegate to the Governing Board.

COSERRC provides special education services at a regional level, as determined by each of the participating local school districts. The Center has no ongoing financial interest or financial responsibility to COSERRC.

Pickaway Ross Joint Vocational School District

The Pickaway County Educational Service Center is a member of the Pickaway Ross Joint Vocational School District.

The Pickaway Ross Joint Vocational School District has an eleven-member board of education. The Center has three board members as representatives to the Pickaway Ross Joint Vocational School District board.

The Center has no ongoing financial interest or financial responsibility to the Pickaway Ross Joint Vocational School District.

Note 14. Joint Venture

The Center, local and city school districts and the county juvenile court system have formed a joint venture agreement to provide an educational program called PASS (Pickaway County Alternative School for Success). Initial investment by the Center was \$10,000. The Center is the fiscal agent for the program, which is reported as an internal service fund. Program revenues will consist of contributions from the participating local and city school districts, the Center, the county juvenile court system and fees received from the school districts participating in the program.

On June 1 of each year, the fiscal agent will determine if there are excess costs or revenue. Payment by the participating districts for any excess operational cost is based on a formula using total district enrollment days. Should revenue exceed costs, the fiscal agent shall carry the balance forward to the new

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 14. Joint Venture (continued)

fiscal year or distribute to the participating districts according to the formula should the alternative school be abolished. No excess operational costs were levied for the year ending June 30, 1999.

Note 15. Fund Balance/Retained Earnings Deficits

Fund balances/retained earnings at June 30, 1999, included the following individual deficits:

Special Revenue Fund:

Child Abuse Prevention Grant (\$1,000) Social Work Grant (\$1,246)

The deficits resulted from accrued liabilities for intrafund payables. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 16. Contingencies

A. Grants

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

B. Litigation

The Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 1999.

Note 17. State Funding

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

Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$32. This amount is provided from State resources.

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

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 17. State Funding (continued)

The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

Note 18. School Funding Decision

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 Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Center. During the fiscal year ended June 30, 1999, the Center received \$1,291,622 of school foundation support for its general fund.

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

The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of this date, 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 Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the 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.

Note 19. Change in Accounting Principles

The Center has implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan. On September 1, 1998, the Ohio Public Employees Deferred Compensation Board created a trust for the assets of the plan for which the Center has no fiduciary responsibility. Therefore, the balance at June 30, 1998 in the Ohio Public Employees Deferred Compensation Board deferred compensation plan of \$72,766 was shown as a reduction in the deferred compensation agency fund.

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 Center's operations.

The Center has completed an inventory of computer systems and other equipment necessary to conducting Center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

Pickaway County Educational Service Center
Notes to the General Purpose Financial Statements
June 30, 1999

Note 20. Year 2000 Issue (continued)

An assessment has been completed by contacting the manufacturers/vendors of each inventory item. Remediation tasks identified during this process either have been executed or will be soon.

The Center utilizes Metropolitan Education Council (MEC), an external service organization, for its accounting and financial reporting. Metropolitan Education Council is responsible for remediating these systems. The Center has contacted and received documentation regarding its Year 2000 status.

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

To the best of their knowledge, the Center believes that all mission critical computer systems have been fully remediated.

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



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Pickaway County Educational Service Center
Circleville, Ohio

We have audited the general purpose financial statements of Pickaway County Educational Service Center as of and for the year ended June 30, 1999, and have issued our report thereon dated November 17, 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 Pickaway County Educational Service Center's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pickaway County Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 judgment, could adversely affect Pickaway County Educational Service Center'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 1999-3091-001.

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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Pickaway County Educational Service Center in a separate letter dated November 17, 1999.

This report is intended solely for the information and use of the board of education, management and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.

Jones, Cochenour & Co.

November 17, 1999

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
JUNE 30, 1999

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

Finding Number

1999-3091-001

SEGREGATION OF DUTIES - REPORTABLE CONDITION

Due to the limited staff size, there is a lack of segregation of duties. The same person performs all cash receipt functions, prepares bank deposits, posts to the general ledger, reconciles all bank accounts and writes all checks. Under desirable internal controls, the origination and completion of single transactions are never under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the constant review of the other. At a minimum, the bank reconciliation should be prepared by someone with no cash receipts or disbursements responsibilities. In addition, all checks should be reviewed and mailed by a person not involved in check preparation.

**PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
STATUS OF PRIOR AUDIT FINDINGS AND CITATIONS
JUNE 30, 1999**

<u>CITATIONS AND FINDINGS</u>	<u>STATUS</u>	<u>EXPLANATION IF NOT FULLY IMPLEMENTED</u>
REPORTABLE CONDITION:		
1. Separation of duties – the same person performs all cash receipt functions, prepares bank deposits, posts to the general ledger, reconciles all bank accounts and writes all checks.	Not Corrected	Not financially feasible to hire additional staff.

**PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
CONCLUSION STATEMENT
JUNE 30, 1999**

A post audit conference with the Pickaway County Educational Service Center officials was conducted on December 16, 1999, at which time they were notified they had five business days to respond to the preliminary report. All responses were reviewed.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

PICKAWAY EDUCATIONAL SERVICE CENTER

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: JANUARY 11, 2000