



**ROSS COUNTY EDUCATIONAL SERVICE CENTER
ROSS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types	6
Statement of Revenues, Expenses and Changes in Retained Earnings - Internal Service Fund	7
Statement of Cash Flows - Internal Service Fund	8
Notes to the Financial Statements	9
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29
Schedule of Findings	31

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REPORT OF INDEPENDENT ACCOUNTANTS

Ross County Educational Service Center
475 Western Avenue Suite E
Chillicothe, Ohio 45601-2279

We have audited the accompanying general-purpose financial statements of the Ross County Educational Service Center, Ross County, Ohio, (the Center) as of and for the year ended June 30, 1999. These general-purpose financial statements are the responsibility of the 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 respects, the financial position of Ross County Educational Service Center, Ross County, Ohio, as of June 30, 1999, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the general purpose financial statements, the Center adopted Governmental Accounting Standards Board Statement No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2000 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

March 2, 2000

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1998**

	Governmental Fund Types		Proprietary Fund Type		Fiduciary Fund Type		Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations			
Assets and Other Debits:									
Assets:									
Equity in Pooled Cash and Cash Equivalents	\$423,165	\$70,681	\$0	\$28,576	\$0	\$0	\$0	\$522,422	
Cash and Cash Equivalents With Fiscal Agents	0	0	28,745	0	0	0	0	28,745	
Receivables:									
Intergovernmental	12,135	65,955	0	0	0	0	0	78,090	
Prepaid Premiums	0	0	154,313	0	0	0	0	154,313	
Prepaid Items	1,952	0	0	0	0	0	0	1,952	
Fixed Assets	0	0	0	0	197,215	0	0	197,215	
Other Debits:									
Amount to be Provided from General Government Resources	0	0	0	0	0	138,000	138,000	138,000	
Total Assets	\$437,252	\$136,636	\$183,058	\$28,576	\$197,215	\$138,000	\$1,120,737		
Liabilities Fund Equity and Other Credits:									
Liabilities:									
Accounts Payable	\$3,260	\$14,839	\$0	\$1,996	\$0	\$0	\$0	\$20,095	
Accrued Wages and Benefits	126,090	5,592	0	0	0	0	0	131,682	
Compensated Absences Payable	12,597	0	0	0	0	126,669	0	139,266	
Intergovernmental Payable	11,656	4,033	0	0	0	11,331	0	27,020	
Claims Payable	0	0	11,501	0	0	0	0	11,501	
Undistributed Monies	0	0	0	26,580	0	0	0	26,580	
Total Liabilities	153,603	24,464	11,501	28,576	0	138,000	356,144		
Fund Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	197,215	0	0	197,215	
Retained Earnings:									
Unreserved	0	0	171,557	0	0	0	0	171,557	
Fund Balance:									
Reserved for Encumbrances	18,362	33,619	0	0	0	0	0	51,981	
Unreserved:									
Undesignated	265,287	78,553	0	0	0	0	0	343,840	
Total Fund Equity and Other Credits	283,649	112,172	171,557	0	197,215	0	764,593		
Total Liabilities, Fund Equity and Other Credits	\$437,252	\$136,636	\$183,058	\$28,576	\$197,215	\$138,000	\$1,120,737		

See accompanying notes to the general purpose financial statements

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

	General	Special Revenue	(Totals Memorandum Only)
<u>Revenues:</u>			
Intergovernmental	\$2,203,210	\$468,926	\$2,672,136
Interest	30,943	0	30,943
Gifts and Donations	6,731	5,407	12,138
Customer Services	123,360	47,386	170,746
Miscellaneous	12,976	54,845	67,821
 Total Revenues	 2,377,220	 576,564	 2,953,784
 <u>Expenditures:</u>			
Current:			
Instruction:			
Regular	34,523	0	34,523
Special	638,217	113,580	751,797
Adult/Continuing	0	30,645	30,645
Support Services:			
Pupils	537,938	49,911	587,849
Instructional Staff	685,814	269,217	955,031
Board of Education	40,818	0	40,818
Administration	227,236	21,743	248,979
Fiscal	79,333	14,757	94,090
Operation and Maintenance of Plant	10,181	0	10,181
Central	33,274	0	33,274
Non-Instructional Services	48,022	0	48,022
Debt Service:			
Principal Retirement	696	0	696
Interest and Fiscal Charges	24	0	24
Intergovernmental	0	5,000	5,000
 Total Expenditures	 2,336,076	 504,853	 2,840,929
 Excess of Revenues Over Expenditures	 41,144	 71,711	 112,855
 <u>Other Financing Sources:</u>			
Proceeds from the Sale of Fixed Assets	150	0	150
 Excess of Revenues and Other Financing Sources Over Expenditures	 41,294	 71,711	 113,005
 Fund Balances at Beginning of Year	 242,355	 40,461	 282,816
 Fund Balances at End of Year	 \$283,649	 \$112,172	 \$395,821

See accompanying notes to the general purpose financial statements

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	2,259,074	2,259,074	0	373,014	373,014	0
Interest	30,943	30,943	0	0	0	0
Gifts and Donations	6,731	6,731	0	5,407	5,407	0
Customer Services	123,360	123,360	0	51,550	51,550	0
Miscellaneous	19,352	19,352	0	25,351	25,351	0
Total Revenues	2,439,460	2,439,460	0	455,322	455,322	0
Expenditures:						
Current:						
Instruction:						
Regular	32,370	32,370	0	0	0	0
Special	642,367	642,367	0	113,859	113,859	0
Adult/Continuing	0	0	0	30,289	30,289	0
Support Services:						
Pupils	535,541	535,541	0	59,153	59,153	0
Instructional Staff	699,999	700,444	(445)	291,271	291,271	0
Board of Education	46,021	46,021	0	0	0	0
Administration	227,984	227,984	0	21,360	21,360	0
Fiscal	79,793	79,793	0	14,757	14,757	0
Operation and Maintenance of Plant	9,963	9,963	0	0	0	0
Central	29,513	29,513	0	0	0	0
Non-Instructional Services	49,012	49,012	0	0	0	0
Intergovernmental	0	0	0	8,400	8,400	0
Total Expenditures	2,352,563	2,353,008	(445)	539,089	539,089	0
Excess of Revenues Over (Under) Expenditures	86,897	86,452	(445)	(83,767)	(83,767)	0
Other Financing Sources (Uses):						
Proceeds from the Sale of Fixed Assets	0	150	150	0	0	0
Refund of Prior Year Receipts	(1,530)	(1,530)	0	0	0	0
Advances In	0	15,000	15,000	0	0	0
Advances Out	0	0	0	0	(15,000)	(15,000)
Other Financing Sources	0	0	0	69,409	70,620	1,211
Total Other Financing Sources (Uses)	(1,530)	13,620	15,150	69,409	55,620	(13,789)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	85,367	100,072	14,705	(14,358)	(28,147)	(13,789)
Fund Balances at Beginning of Year	262,593	262,593	0	40,886	40,886	0
Prior Year Encumbrances Appropriated	41,419	41,419	0	16,270	16,270	0
Fund Balances at End of Year	\$389,379	\$404,084	\$14,705	\$42,798	\$29,009	(\$13,789)

See accompanying notes to the general purpose financial statements

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Self-Insurance</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$114,612</u>
<u>Operating Expenses:</u>	
Purchased Services	271
Claims	<u>88,736</u>
Total Operating Expenses	<u>89,007</u>
Operating Income	25,605
<u>Non-Operating Revenues:</u>	
Interest	<u>1,365</u>
Net Income	26,970
Retained Earnings at Beginning of Year	<u>144,587</u>
Retained Earnings at End of Year	<u><u>\$171,557</u></u>

See accompanying notes to the general purpose financial statements

**STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Increase (Decrease) in Cash and Cash Equivalents:

	<u>Self-Insurance</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Quasi-External Transactions With Other Funds	\$114,612
Cash Payments to Suppliers for Goods and Services	(271)
Cash Payments for Claims	(81,960)
Net Cash Provided by Operating Activities	_____
<u>Cash Flows from Noncapital Financing Activities:</u>	
Short-Term Loans to Other Funds	(154,313)
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	1,365
Net Decrease in Cash and Cash Equivalents	(152,948)
Cash and Cash Equivalents at Beginning of Year	149,312
Cash and Cash Equivalents at End of Year	(\$3,636)

Reconciliation of Operating Income to Net

<u>Cash Provided by Operating Activities:</u>	
Operating Income	25,605
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>	
Changes in Assets and Liabilities:	
Increase in Claims Payable	6,776
Net Cash Provided by Operating Activities	\$32,381

See accompanying notes to the general purpose financial statements

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Description of the Entity

The Ross County Educational Service Center (the "Educational Service Center") is located in Chillicothe, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Union-Scioto, Adena, Zane Trace, Scioto Valley, Huntington, and Paint Valley Local School Districts, the Chillicothe City School District, and the Pickaway-Ross County Joint Vocational School. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Ross County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 27 support staff employees and 33 certified teaching personnel that provide services to the local and city school districts and the joint vocational school.

Reporting Entity:

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Ross County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center is associated with three organizations. The South Central Ohio Computer Association and the Pickaway-Ross Joint Vocational School are defined as jointly governed organizations. The Ohio School Boards Association Workers' Compensation Group Rating Plan is defined as an insurance purchasing pool. Information about these organizations are presented in Notes 17 and 18 to the combined financial statements.

B. Basis of Accounting

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

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

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

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

Governmental Fund Types:

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

General Fund

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

Special Revenue Funds

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

Proprietary Fund Type:

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

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of agency funds which are custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group:

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

General Long-Term Obligations Account Group:

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

C. Measurement Focus and Basis of Accounting

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

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The Educational Service Center has no contributed capital. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the internal service fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

D. Budgetary Process

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

The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process (continued)

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

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

Encumbrances:

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

Lapsing of Appropriations:

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. The Educational Service Center is a member of the Ross County School Employees Insurance Consortium, a claims servicing pool, consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The monies held by the Consortium on behalf of the Educational Service Center are presented on the combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents (continued)

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$30,943 which includes \$10,416 assigned from other Educational Service Center funds. The internal service fund also received interest revenue of \$1,365.

For purposes of the 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 Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Additional prepaid items listed as "prepaid premiums" represent assets credited to the Ross County Education Center by the Ross County Employees Insurance Consortium.

G. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

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

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Intergovernmental Revenues (continued)

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- Community Alternative Funding System

Non-Reimbursable Grants

Special Revenue Funds

- Career Enhancement
- Education Management Information Systems
- Entry Year Program
- Teacher Development
- Drug-Free Schools
- EHA Preschool
- School To Work
- Dwight D. Eisenhower Math and Science

Grants and entitlements received in governmental funds amounted to approximately ninety percent of the Educational Service Center's governmental fund revenue during the 1999 fiscal year.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated sick leave for all employees after 20 years of current service with the Educational Service Center.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Transactions

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

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

L. Fund Balance Reserves

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

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Total Columns on General Purpose Financial Statements

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

2. CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" provides accounting for deferred compensation plans. The Educational Service Center participates in the Ohio Public Employees Deferred Compensation Program. During 1998, the Ohio Public Employees Deferred Compensation Program created a trust for the assets of the plan for which the Educational Service Center has no fiduciary responsibility. Therefore, plan assets are no longer presented on the balance sheet.

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

3. COMPLIANCE

Contrary to Section 5705.41(B), Ohio Revised Code, the instructional staff account in the general fund had expenditures plus encumbrances in excess of appropriations in the amount of \$445.

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
4. The Educational Service Center does not budget for the activities of the fiscal agent who collects and holds assets used for the payment of medical and dental claims. However, the activities of the fiscal agent are included in the internal service fund for GAAP reporting purposes.
5. Advances in and advances out are operating transaction (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Excess of Revenues and Other Financing Sources Over
(Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue
GAAP Basis	\$41,294	\$71,711
Revenue Accruals	62,240	(50,622)
Expenditure Accruals	619	7,436
Advances	15,000	(15,000)
Encumbrances	(19,081)	(41,672)
Budget Basis	\$100,072	(\$28,147)

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

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury 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 (STAROhio);
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 monies available for investment at any one time; and,

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

5. DEPOSITS AND INVESTMENTS (continued)

8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

At fiscal year end, the Educational Service Center had \$25 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "equity in pooled cash and cash equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$28,745 shown in the internal service fund is maintained with the Ross County School Employees Insurance Consortium. GASB 3 disclosure regarding this amount can be obtained from their annual report.

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

Deposits - At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$231,799) and the bank balance was \$68,198. The bank balance was fully covered by federal depository insurance.

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

	<u>Unclassified</u>	<u>Category 3</u>	Fair <u>Value</u>
Repurchase Agreement	\$0	\$702,188	\$702,188
STAR Ohio	52,008	0	52,008
Totals	<u>\$52,008</u>	<u>\$702,188</u>	<u>\$754,196</u>

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."

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

5. DEPOSITS AND INVESTMENTS (continued)

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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$551,167	\$0
Cash on Hand	(25)	0
Cash and Cash Equivalents With Fiscal Agent	(28,745)	0
Investments:		
Repurchase Agreement	(702,188)	702,188
STAR Ohio	(52,008)	52,008
GASB Statement No. 3	(\$231,799)	\$754,196

6. STATE FUNDING

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

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

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

7. RECEIVABLES

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

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

7. RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Reimbursement for French Teacher	\$8,396
Media Library	1,362
Community Alternative Funding System	2,377
Total General Fund	12,135
Special Revenue Funds:	
Ross County Alternative School	
Excess Costs	1,785
Alternative School	2,125
Professional Development	
Pike Joint Vocational School	1,500
Continuous Improvement Facilitators Grant	50,000
School to Work Grant	10,545
Total Special Revenue Funds	65,955
Total Intergovernmental Receivables	\$78,090

8. FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at</u> <u>6/30/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/99</u>
Furniture, Fixtures and Equipment	\$113,442	\$90,635	\$6,862	\$197,215

9. RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted with Cincinnati Insurance Company for property insurance and with Nationwide Insurance for liability insurance.

Coverages are as follows:

Building and Contents-replacement cost (\$250 deductible)	\$264,694
General Liability	
Per occurrence	1,000,000
Total per year	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

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

9. RISK MANAGEMENT (continued)

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP 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.

Medical/surgical insurance is offered to employees through the Ross County School Employees Insurance Consortium. The Educational Service Center is a member of the Ross County School Employees Insurance Consortium, a claims servicing pool, consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$5,731 reported at June 30, 1999, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues"*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. No incremental claims adjustments are included in the estimate. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
1998	\$7,360	\$79,107	\$81,742	\$4,725
1999	4,725	88,736	81,960	11,501

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

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

10. DEFINED BENEFIT PENSION PLANS (continued)

A. School Employees Retirement System (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$28,645, \$30,304 and \$22,798, respectively; 100 percent has been contributed for fiscal year 1999, 1998 and 1997.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$80,747, \$125,358 and \$118,288, respectively; 100 percent has been contributed for fiscal years 1999, 1998 and 1997.

C. Social Security System

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

11. POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

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

11. POSTEMPLOYMENT BENEFITS (continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$107,662 for fiscal year 1999.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$34,768.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from board policy and State laws. Twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time (up to twenty days) is paid to classified employees and administrators upon termination of employment.

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

12. EMPLOYEE BENEFITS (continued)

A. Compensated Absences (continued)

Full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

B. Life Insurance

The Educational Service Center provides life insurance to most employees through Professional Risk Management.

C. Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

For fiscal year 1999, the School District implemented *GASB Statement No. 32, "Deferred Compensation Plans"*. This statement eliminates the requirement that the Educational Service Center report plan assets in an agency fund if the plan has established a trust fund whose assets are not held by the Educational Service Center in a fiduciary capacity. The Ohio Public Employees Deferred Compensation Plan has established a trust fund and the amounts are no longer reported on the Educational Service Center's balance sheet as of June 30, 1999.

13. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the Educational Service Center entered into capitalized leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment and furniture and fixtures have been capitalized in the general fixed assets account group in the amount of \$8,985. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$696 in the governmental funds. As of June 30, 1999, all minimum lease payments had been made and the corresponding liability was eliminated.

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

14. LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
Capital Leases	\$696	\$0	\$696	\$0
Intergovernmental Payable	9,253	11,331	9,253	11,331
Compensated Absences	138,658	0	11,989	126,669
Total General Long-Term Obligations	<u>\$148,607</u>	<u>\$11,331</u>	<u>\$21,938</u>	<u>\$138,000</u>

Compensated absences and the intergovernmental payable will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions.

15. SCHOOL FUNDING COURT 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 State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,228,556 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, 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 Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operations.

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

16. JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Brown, Pike, Scioto, Ross, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the eight participating counties, two school Treasurers and a representative of the fiscal agent. The Educational Service Center paid SCOCA \$3,523 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio 45661.

Pickaway-Ross County Joint Vocational School

The Pickaway-Ross County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possesses its own budgeting and taxing authority. During fiscal year 1999, the Educational Service Center made no contributions to the Pickaway-Ross County Joint Vocational School. To obtain financial information write to the Pickaway-Ross County Joint Vocational School, Ben Van Horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

17. INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 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.

18. CONTINGENCIES

A. Grants

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

B. Litigation

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

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

19. SUBSEQUENT EVENTS

Pursuant to Section 3311.053 of the Ohio Revised Code, on July 1, 1999, the Ross County Educational Service Center and the Pike County Educational Service Center combined into one educational service district. The newly formed educational service district is named the Ross-Pike County Educational Service District.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

Ross County Educational Service Center
475 Western Avenue, Suite E
Chillicothe, Ohio 45601

We have audited the general-purpose financial statements of Ross County Educational Service Center, Ross County, Ohio, (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated March 2, 2000, wherein we noted the Center changed its accounting for the deferred compensation plan. We conducted our audit in accordance with generally accepted auditing standards and the auditing 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 Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations contracts and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 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 1999-10771-001.

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 do not believe the reportable condition described above is a material weakness.

This report is intended for the information and use of the Board of Education and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

JIM PETRO
Auditor of State

March 2, 2000

**SCHEDULE OF FINDINGS
JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-10771-001

Monitoring Self-Insurance Activity

The District is a member of the Ross County School Employees Insurance Consortium (RCSEIC) for health self-insurance purposes. The District pays premiums monthly to the RCSEIC who then pays the third party administrator (TPA) for District claims. The District receives summary reports and a listing of claims payments from the TPA that are utilized to post activity to the District's financial statements. The District receives no reports from the consortium. Appropriate monitoring controls were not in place at the District over the claims payment activity and the summary reports received from the TPA.

Lack of proper monitoring controls allowed erroneous summary reports, presented by the TPA, to be posted to the District's financial statements. (Material) adjustments have been posted to the accompanying financial statements to correct these errors.

The District should obtain from the RCSEIC a summary report and reconciliation of the District's activity with the RCSEIC. The District should monitor these reports and compare them with the TPA summary reports to insure accuracy prior to posting activity to the financial statements. The District should also review listings of claims the TPA has approved to help assure the beneficiary is eligible for the benefits (i.e., is a District employee or family member).



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ROSS COUNTY EDUCATIONAL SERVICE CENTER

ROSS 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
APRIL 4, 2000**