



**SOUTH CENTRAL OHIO
EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To the Board of Education:

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

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

Generally accepted accounting principles require that budget-basis presentations within the general purpose financial statements include the aggregation by fund type of the appropriated budgets, as amended and adopted by the Board of Education, compared with related actual amounts. The budget-basis presentations within the accompanying general purpose financial statements include budgeted expenditure and revenue amendments which were not adopted by the Board of Education.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Central Ohio Educational Service Center, Scioto County, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the general purpose financial statements, during 1999 the Educational Service Center implemented Governmental Accounting Standards Board Statement No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*"

As described in Note 20 to the general purpose financial statements, during 1999, the Educational Service Center reclassified the funds of the Family and Children First Council of Scioto County.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2000, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

January 26, 2000

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

	Governmental Fund Types			Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Agency	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits:							
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$254,862	\$489,885	\$98,912	\$1,103,620	\$0	\$0	\$1,947,279
Receivables:							
Accounts	60	0	0	5,586	0	0	5,646
Intergovernmental	118,436	30,899	0	0	0	0	149,335
Interfund	63,454	0	0	0	0	0	63,454
Prepaid Items	1,970	0	0	0	0	0	1,970
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	172,411	0	172,411
Other Debits:							
Amount to be Provided from General Government Resources	0	0	0	0	0	353,619	353,619
Total Assets and Other Debits	\$438,782	\$520,784	\$98,912	\$1,109,206	\$172,411	\$353,619	\$2,693,714
Liabilities Fund Equity and Other Credits:							
Liabilities:							
Accounts Payable	\$25,119	\$25,001	\$0	\$0	\$0	\$0	\$50,120
Accrued Wages and Benefits	60,927	178,336	594	0	0	0	239,857
Compensated Absences Payable	38,096	3,043	0	160	0	346,327	387,626
Interfund Payable	0	63,454	0	0	0	0	63,454
Intergovernmental Payable	44,235	33,988	528	95	0	7,292	86,138
Undistributed Monies	0	0	0	1,108,951	0	0	1,108,951
Total Liabilities	168,377	303,822	1,122	1,109,206	0	353,619	1,936,146
Fund Equity and Other Credits:							
Investment in General Fixed Assets	0	0	0	0	172,411	0	172,411
Fund Balance:							
Reserved for Encumbrances	3,753	16,000	660	0	0	0	20,413
Unreserved:							
Undesignated	266,652	200,962	97,130	0	0	0	564,744
Total Fund Equity and Other Credits	270,405	216,962	97,790	0	172,411	0	757,568
Total Liabilities, Fund Equity and Other Credits	\$438,782	\$520,784	\$98,912	\$1,109,206	\$172,411	\$353,619	\$2,693,714

See accompanying notes to the general purpose financial statements

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Revenues:				
Intergovernmental	\$2,139,443	\$1,305,896	\$96,015	\$3,541,354
Interest	43,688	0	0	43,688
Customer Services	344,354	1,387,090	0	1,731,444
Miscellaneous	60	25	0	85
	-----	-----	-----	-----
Total Revenues	2,527,545	2,693,011	96,015	5,316,571
	-----	-----	-----	-----
Expenditures:				
Current:				
Instruction:				
Regular	0	9,575	0	9,575
Special	21,358	1,564,165	0	1,585,523
Vocational	0	2,046	0	2,046
Other	3,587	0	0	3,587
Support Services:				
Pupils	689,937	18,791	0	708,728
Instructional Staff	975,894	459,319	123,493	1,558,706
Board of Education	18,424	52,849	0	71,273
Administration	584,894	446,622	0	1,031,516
Fiscal	113,013	10,806	0	123,819
Operation and Maintenance of Plant	0	28,443	0	28,443
Central	333,509	3,987	0	337,496
Capital Outlay	0	880	0	880
	-----	-----	-----	-----
Total Expenditures	2,740,616	2,597,483	123,493	5,461,592
	-----	-----	-----	-----
Excess of Revenues Over (Under) Expenditures	(213,071)	95,528	(27,478)	(145,021)
	-----	-----	-----	-----
Other Financing Sources (Uses):				
Operating Transfers In	102,903	65,971	29,059	197,933
Operating Transfers Out	(29,059)	(114,962)	(53,912)	(197,933)
	-----	-----	-----	-----
Total Other Financing Sources (Uses)	73,844	(48,991)	(24,853)	0
	-----	-----	-----	-----
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(139,227)	46,537	(52,331)	(145,021)
	-----	-----	-----	-----
Fund Balances at Beginning of Year	409,632	170,425	150,121	730,178
	-----	-----	-----	-----
Fund Balances at End of Year	\$270,405	\$216,962	\$97,790	\$585,157
	=====	=====	=====	=====

See accompanying notes to the general purpose financial statements

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
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	\$2,216,497	\$2,216,497	\$0	\$1,349,009	\$1,349,009	\$0
Interest	43,810	43,810	0	0	0	0
Customer Services	344,354	344,354	0	1,392,336	1,392,336	0
Total Revenues	2,604,661	2,604,661	0	2,741,345	2,741,345	0
Expenditures:						
Current:						
Instruction:						
Regular	0	0	0	12,712	12,712	0
Special	21,358	21,358	0	1,595,151	1,595,151	0
Vocational	0	0	0	2,313	2,313	0
Other	3,587	3,587	0	0	0	0
Support Services:						
Pupils	679,912	679,912	0	18,463	18,463	0
Instructional Staff	953,043	953,043	0	472,430	472,430	0
Board of Education	17,783	17,783	0	50,950	50,950	0
Administration	582,301	582,301	0	468,647	468,647	0
Fiscal	115,134	115,134	0	10,817	10,817	0
Operation and Maintenance of Plant	0	0	0	28,443	28,443	0
Central	349,221	349,221	0	3,987	3,987	0
Capital Outlay	0	0	0	880	880	0
Total Expenditures	2,722,339	2,722,339	0	2,664,793	2,664,793	0
Excess of Revenues Over (Under) Expenditures	(117,678)	(117,678)	0	76,552	76,552	0
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	0	0	0	25	25	0
Operating Transfers In	102,903	102,903	0	251,374	251,374	0
Operating transfers Out	(29,059)	(29,059)	0	(300,365)	(300,365)	0
Total Other Financing Sources (Uses)	73,844	73,844	0	(48,966)	(48,966)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(43,834)	(43,834)	0	27,586	27,586	0
Fund Balances at Beginning of Year	354,671	354,671	0	307,279	307,279	0
Prior Year Encumbrances Appropriated	3,538	3,538	0	72,235	72,235	0
Fund Balances at End of Year	\$314,375	\$314,375	\$0	\$407,100	\$407,100	\$0

(Continued)

See accompanying notes to the general purpose financial statements

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$96,015	\$96,015	\$0	\$3,661,521	\$3,661,521	\$0
0	0	0	43,810	43,810	0
0	0	0	1,736,690	1,736,690	0
-----	-----	-----	-----	-----	-----
96,015	96,015	0	5,442,021	5,442,021	0
-----	-----	-----	-----	-----	-----
0	0	0	12,712	12,712	0
0	0	0	1,616,509	1,616,509	0
0	0	0	2,313	2,313	0
0	0	0	3,587	3,587	0
0	0	0	698,375	698,375	0
126,494	126,494	0	1,551,967	1,551,967	0
0	0	0	68,733	68,733	0
0	0	0	1,050,948	1,050,948	0
0	0	0	125,951	125,951	0
0	0	0	28,443	28,443	0
0	0	0	353,208	353,208	0
0	0	0	880	880	0
-----	-----	-----	-----	-----	-----
126,494	126,494	0	5,513,626	5,513,626	0
-----	-----	-----	-----	-----	-----
(30,479)	(30,479)	0	(71,605)	(71,605)	0
-----	-----	-----	-----	-----	-----
0	0	0	25	25	0
39,118	39,118	0	393,395	393,395	0
(63,971)	(63,971)	0	(393,395)	(393,395)	0
-----	-----	-----	-----	-----	-----
(24,853)	(24,853)	0	25	25	0
-----	-----	-----	-----	-----	-----
(55,332)	(55,332)	0	(71,580)	(71,580)	0
143,584	143,584	0	805,534	805,534	0
10,000	10,000	0	85,773	85,773	0
-----	-----	-----	-----	-----	-----
\$98,252	\$98,252	\$0	\$819,727	\$819,727	\$0
=====	=====	=====	=====	=====	=====

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The South Central Ohio Educational Service Center (the "Educational Service Center") is located in Portsmouth, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Adams County Ohio Valley, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, and Wheelersburg Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. 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 South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of fifteen members elected at-large for staggered four year terms. The Educational Service Center has 35 classified, 46 certified, and 4 Administrative personnel that provide services to the local, city, and joint vocational school districts.

Reporting Entity:

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

The Educational Service Center is associated with four organizations, three of which are defined as jointly governed organizations, and one as a public entity shared risk pool. These organizations include the South Central Ohio Computer Association, the Scioto County Joint Vocational School, the Family and Children First Council of Scioto County, and the Scioto County Regional Council of Governments. Information about these organizations is presented in Notes 16 and 17 to the general purpose financial statements.

The Educational Service Center serves as fiscal agent for the Scioto County Regional Council of Governments and the Family and Children First Council of Scioto County. Accordingly, the activities of these organizations are presented as agency funds within the Educational Service Center's general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special 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 and fiduciary.

Governmental Fund Types:

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Type:

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. The Educational Service Center's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Account Groups: (Continued)

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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.

C. Budgetary Process

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

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 (C) 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 district.

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary 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, consistent with statutory provisions. Prior to year-end, the Educational Service Center passed a supplemental appropriation that reflected actual expenditures for the fiscal year.

Encumbrances:

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

During fiscal year 1999, investments were limited to repurchase agreements and STAROhio. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in the State Treasury Assets 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 Educational Service Center 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 \$43,688, which includes \$18,010 assigned from other Educational Service Center funds.

For presentation of 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.

E. 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 is reported in the year in which services are consumed.

F. 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 Educational Service Center does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are depreciated. Depreciation of furniture, fixtures and equipment is computed using the straight-line method over an estimated useful life of five to twenty years.

G. 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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues (Continued)

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Cooperative Learning
Early Childhood Grant
Career Enhancement
South Regional Professional Development
Entry Year
Education Management Information Systems
Public School Preschool
Title I
Title VI-B
Eisenhower Professional
Mental Retardation and Development Disorders-
Community Alternative Funding System
Work Study
School to Work
Dropout Prevention/Intervention
Instructional Media Center
Juvenile Justice Fund
Netscape

Capital Projects Funds

School Net

Grants and entitlements received in governmental funds amounted to approximately 60 percent of the Educational Service Center's governmental fund revenue during the 1999 fiscal year.

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables."

I. Compensated Absences

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for certified employees and support staff after 20 years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

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 used current available financial resources.

K. Interfund Transactions

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

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

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 the 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 or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1999, the Educational Service Center implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code 457 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.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 1999, the Cooperative Low Incidence Special Revenue Fund had a deficit fund balance of \$246,642 which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balance - 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 are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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	Capital Projects
GAAP Basis	(\$139,227)	\$46,537	(\$52,331)
Revenue Accruals	77,116	48,359	0
Expenditure Accruals	22,215	(47,976)	(2,341)
Encumbrances	(3,938)	(19,334)	(660)
Budget Basis	(\$43,834)	\$27,586	(\$55,332)

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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 obligations 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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred 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
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits At fiscal year end the carrying amount of the Educational Service Center's deposits was \$1,096,541 and the bank balance was \$1,142,517. Of the bank balance:

1. \$188,560 was covered by federal depository insurance; and
2. \$953,957 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

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 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 counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category One	Unclassified	Carrying Value	Fair Value
Repurchase Agreements	\$137,706	\$0	\$137,706	\$137,706
STAROhio	0	713,032	713,032	713,032
Total	\$137,706	\$713,032	\$850,738	\$850,738

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:

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,947,279	\$0
Investments:		
Repurchase Agreement	(137,706)	137,706
STAROhio	(713,032)	713,032
GASB Statment No. 3	\$1,096,541	\$850,738

NOTE 7 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's 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 \$42.50. 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 districts approve or disapprove the additional apportionment.

NOTE 8 - RECEIVABLES

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

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Cooperative Low Incidence	\$35,082
Co-op Payments	83,354
Total General Fund	118,436
Special Revenue Funds:	
Co-op Payments	28,388
Ohio State Making It Work Grant	2,511
Total Special Revenue Funds	30,899
Total Intergovernmental Receivables	\$149,335

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 9 - FIXED ASSETS

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

Asset Category	Balance at 6/30/98	Additions	Deletions	Balance at 6/30/99
Furniture, Fixtures and Equipment	<u>\$233,573</u>	<u>\$54,687</u>	<u>\$0</u>	\$288,260
Less: Accumulated Depreciation				(115,849)
Total General Fixed Assets				<u>\$172,411</u>

NOTE 10 - 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 Portsmouth Insurance for property, fleet and inland marine coverage. The Educational Service Center contracted with Nationwide Insurance for liability insurance. Coverages are as follows:

Building and Contents-replacement cost (\$250 deductible)	\$200,000
Inland Marine Coverage (\$250 deductible)	143,000
Crime Insurance	25,000
Automobile Liability	1,000,000
General Liability Per occurrence	2,000,000
Total per year	5,000,000

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

The Educational Service Center pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The Educational Service Center participates in and is fiscal agent for the Scioto County Regional Council of Governments (SCRCOG), a public entity shared risk pool (Note 17), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School Districts' behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the Plan due up to the date of termination plus extended benefits, if any, provided under the Plan. Such claims and expenses shall be paid from the funds of the Council.

NOTE 11 - 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 GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 11 - 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 \$51,859, \$67,408, and \$51,567, respectively; 90.94 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$4,696 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. 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 \$142,218, \$298,089, and \$259,068, respectively; 85.52 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$20,589 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security System

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

NOTE 12 - 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 GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 12 - 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 \$189,624 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 \$49,722.

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.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Support staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to support staff upon termination of employment. Teachers do not earn vacation time. Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 13 - EMPLOYEE BENEFITS (Continued)

C. Deferred Compensation (Continued)

GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" provides accounting guidelines 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.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
Pension Obligation	\$5,709	\$7,292	\$5,709	\$7,292
Compensated Absences	231,986	114,341	0	346,327
Total General Long-Term Obligations	<u>\$237,695</u>	<u>\$121,633</u>	<u>\$5,709</u>	<u>\$353,619</u>

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

NOTE 15 - INTERFUND ACTIVITY

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

Fund Type/Fund	Receivable	Payable
General Fund	\$63,454	\$0
Special Revenue Fund:		
Cooperative Low Incidence	0	63,454

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The South Central Ohio 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, Pike, Scioto, Brown, 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 county elected by majority vote of all charter member school districts within each county, two school Treasurers, and one representative of the fiscal agent. The Educational Service Center paid SCOCA \$1,000 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 Road, Piketon, Ohio 45661.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Scioto County Joint Vocational School - The Scioto County Joint Vocational School is a legally separate political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating School District's elected boards and one representative from the South Central Ohio Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Scioto County Joint Vocational School, at P.O. Box 766, Lucasville, Ohio 45648.

Family and Children First Council of Scioto County - The Family and Children First Council of Scioto County is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County department of human services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County board of mental retardation and developmental disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the City of Portsmouth; the chair of the Scioto County Commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start program; a representative of the County's Early Intervention Collaborative established pursuant to the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1986"; and at least three individuals representing the interests of families in the County. The Educational Service Center made no contributions to the Council during fiscal year 1999. Continued existence of the council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Regional Council of Governments - The Educational Service Center is a member and fiscal agent of the Scioto County Regional Council of Governments, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Regional Council of Governments. The overall objectives of the Council are to formulate and administer a program of health insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The Educational Service Center pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the Educational Service Center's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the Educational Service Center's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

NOTE 18 - SCHOOL FUNDING

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 \$2,216,497 of school foundation support for its general fund.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 18 - SCHOOL FUNDING (Continued)

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 this program and on its financial operations.

NOTE 19 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms 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 currently not party to any pending litigation.

NOTE 20 - PRIOR PERIOD RESTATEMENT

The Educational Service Center serves as the fiscal agent of the Family and Children First Council of Scioto County. In prior years, the activity of the Council was presented within the Special Revenue Funds of the Educational Service Center. During fiscal year 1999, it was determined that the activity would be more appropriately disclosed as an Agency fund within the general purpose financial statements of the Educational Service Center. The reclassification of the activity of the Council from special revenue funds to an agency fund reduced special revenue fund assets by \$100,905 and equity by \$100,494, and increased agency fund assets and liabilities by \$100,905. This change is reflected as of July 1, 1998.

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Grants to Local Educational Agencies (ESEA Title I)	C1-SP-97P/98P	84.010	\$169,544	\$158,089
	C1-ST-97P/98P		<u>214,462</u>	<u>165,256</u>
Total Title I			384,006	323,345
Special Education - Preschool Grant	PG-S1-98P	84.173	52,221	26,524
Goals 2000 Grant	G2-S4-97C	84.276	0	29,618
	G2-SP-98P		165,000	106,835
	G2-S6-99P		<u>8,050</u>	<u>8,506</u>
Total Goals 2000			173,050	144,959
Eisenhower Professional Development Grant	MS-S1-98	84.281	0	35,732
Total U.S. Department of Education			<u>609,277</u>	<u>530,560</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Health and Human Services:</i>				
Child Welfare Services Grant	N/A	93.645	<u>23,865</u>	<u>24,839</u>
Total U.S. Department of Health and Human Services			<u>23,865</u>	<u>24,839</u>
Total Federal Awards Receipts and Expenditures			<u>\$633,142</u>	<u>\$555,399</u>

The accompanying notes to this schedule are an integral part of this schedule.

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

Note 1 - Basis of Accounting

The School Educational Service Center prepares its Schedule of Federal Awards Receipts and Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To The Board of Education:

We have audited the general purpose financial statements of the South Central Ohio Educational Service Center, Scioto County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 26, 2000, which was qualified due to the inclusion of budgeted expenditures and revenue amendments within the budget-basis presentations which were not adopted by the Board of Education and wherein we noted that the Educational Service Center changed its method of accounting for deferred compensation plan assets. During 1999, the Educational Service Center also reclassified the funds of the Family and Children First Council of Scioto County from the special revenue to agency fiduciary fund type. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated January 26, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 the 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 1999-10773-001.

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 consider the reportable condition described above, item 1999-10773-001, to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated January 26, 2000.

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



Jim Petro
Auditor of State

January 26, 2000



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

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To The Board of Education:

Compliance

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

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

January 26, 2000

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grant to Local Educational Agencies CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)**

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

FINDING NUMBER 1999-10773-001

Material Weakness

The budget as it was originally approved by the Board was not properly entered into the Financial Accounting System of the Educational Service Center. Additionally, the approved amendments by the Board prior to June 30, 1999 did not agree to the amounts from the accounting system upon the use of the "SETBAL" program to amend the budgeted receipts and disbursements. The budget basis presentations within the general purpose financial statements were prepared using the amounts which had been entered into the system and adjustments made by the "SETBAL" program. As a result, the budget basis presentations within the general purpose financial statements did not present the budget as it was approved by the Board. This resulted in the material misstatement of the budgetary basis presentations within the general purpose financial statements.

We recommend that the Treasurer enter the budget amounts as approved by the Board. These amounts must not only agree in total, but must also agree to the detail as presented to and approved by the Board. Any and all amendments should be approved by the Board before they become effective. Further, we recommend that the Board approve the detailed adjustments which are to be made by the "SETBAL" program rather than only approving the use of the "SETBAL" program.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
1998-10773-001	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for disbursements exceeding appropriations at June 30, 1998.	Yes	Finding is no longer valid since the Ohio Revised Code Section does not apply to Educational Service Centers.

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315 (c)

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
1999-10773-001	Treasurer plans to only input budgeted amounts approved by the Board of Education.	Fiscal year 2000	Carmella McDavid, Treasurer



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SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO 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 6, 2000**