



**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

Carroll Harrison Educational Service Center  
Carroll County  
401 West Main Street  
Malvern, Ohio 44644-9482

To the Board of Education:

We have audited the accompanying financial statements of the Carroll Harrison Educational Service Center, Carroll County, (the Center) as of and for the year ended June 30, 1998. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described Note 1, the Center prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 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, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Jim Petro**  
Auditor of State

December 18, 2000

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**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Revenue from Local Sources</b>			
Earnings on Investments	\$1,343		\$1,343
Miscellaneous	4,148		4,148
<b>Revenue from State Sources</b>			
Unrestricted Grants in Aid	286,963		286,963
Restricted Grants in Aid		6,000	6,000
Revenue for/on Behalf of the District	10,919		10,919
<b>Total Revenue</b>	<b>303,373</b>	<b>6,000</b>	<b>309,373</b>
<b>Expenditures:</b>			
Support Services			
Support Services - Pupils	85,174		85,174
Support Services - Instructional Staff	82,549		82,549
Support Services - Board of Education	17,732		17,732
Support Services - Administration	16,325	7,323	23,648
Fiscal Services	5,188		5,188
Operation and Maintenance - Plant	1,128		1,128
Support Services - Pupil Transportation	1,959		1,959
<b>Total Expenditures</b>	<b>210,055</b>	<b>7,323</b>	<b>217,378</b>
Excess of Revenue Over/(Under) Expenditures	93,318	(1,323)	91,995
<b>Other Financing Sources/(Uses):</b>			
Transfers-In		1,265	1,265
Transfers-Out	(1,265)		(1,265)
Refund of Prior Year Expenditures	1,375	4,075	5,450
<b>Total Other Financing Sources/(Uses)</b>	<b>110</b>	<b>5,340</b>	<b>5,450</b>
Excess of Revenue and Other Financing Sources Over/(Under) Expenditures and Other Uses	93,428	4,017	97,445
Fund Cash Balances, January 1	39,971	1,457	41,428
<b>Fund Cash Balances, December 31</b>	<b>\$133,399</b>	<b>\$5,474</b>	<b>\$138,873</b>
Reserves for Encumbrances, December 31	\$738	\$1,565	\$2,303

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

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**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Carroll Harrison Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected five-member Governing Board. The Carroll Educational Service Center merged with the Harrison County Educational Service Center as of July 1, 1997. The Center employs 6 certificated employees and 2 non-certificated employees. The Carroll-Harrison Educational Service Center offers services to the Brown Local School District and the Conotton Valley Local School District.

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

**B. Basis of Accounting**

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

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

**C. Cash and Investments**

The Center has interest and non-interest bearing checking accounts. Interest earned is recognized and recorded when received. Investment procedures are restricted by the provisions of the Ohio Revised Code. No other investments were held by the Center.

**D. Fund Accounting**

The Center uses fund accounting to segregate cash and investments that are restricted as to use. The Center classifies its funds into the following types:

**GOVERNMENTAL FUND TYPES:**

**1. General Fund**

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

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

**Budget**

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

The 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 Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year fund balance and accepted by the Board. 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 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 teacher(s) approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Center. Part (C) includes the adopted appropriations resolution of the Center. The State Board of Education reviews the budget and certifies to each local Governing Board under the supervision of the Center the amount from part (B) that is to be apportioned to their district.

**Appropriations**

The annual appropriation resolution is legally enacted by the 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 Center may pass a temporary appropriation measure to meet the ordinary expenses of the 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 appropriation within a fund, or alter object appropriations within functions, must be approved by the Governing Board.

**Encumbrances**

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control.

**Lapsing of Appropriations**

At the close of each 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.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Property, Plant and Equipment**

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

**2. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**2. DEPOSITS AND INVESTMENTS (Continued)**

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Under limited circumstances, corporate 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 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 1998, the Center had no investments.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

**Deposits** At fiscal year end, the carrying amount of the Center's deposits was \$138,872 and the bank balance was \$150,670. \$100,000 of the bank balance was covered by federal depository insurance. \$50,670 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending June 30, 1998 follows:

**1998 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 219,786	\$ 304,748	\$ 84,962
Special Revenue	<u>6,000</u>	<u>11,340</u>	<u>5,340</u>
Total	<u>\$ 225,786</u>	<u>\$ 316,088</u>	<u>\$ 90,302</u>

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

**1998 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 251,090	\$ 211,320	\$ 39,770
Special Revenue	<u>13,800</u>	<u>7,323</u>	<u>6,477</u>
Total	<u>\$ 264,890</u>	<u>\$ 218,643</u>	<u>\$ 46,247</u>

**4. DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute 14 percent; for fiscal year 1998, 10.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal year ended June 30, 1998 was \$422 and 100 percent has been contributed for fiscal year 1998.

**State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 12 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for fiscal year ended June 30, 1998 was \$16,340 and 100 percent has been contributed for fiscal year 1998.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**4. DEFINED BENEFIT PENSION PLANS (Continued)**

**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. The Center's liability is 6.2 percent of wages paid.

**5. WORKERS' COMPENSATION**

For fiscal year 1998, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Centers is calculated as one experience and a common premium rate is applied to all Centers 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 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 Centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**6. RISK MANAGEMENT**

The Center has obtained commercial insurance for the following risks:

Errors and omissions  
Public official's liability

**7. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1998, the School District received \$286,932 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
CARROLL COUNTY**

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

**7. STATE SCHOOL FUNDING DECISION (Continued)**

seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program (these programs) and on its financial operations.

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OFFICE OF THE AUDITOR

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

Carroll Harrison Educational Service Center  
Carroll County  
401 West Main Street  
Malvern, Ohio 44644-9482

To the Board of Education:

We have audited the financial statements of the Carroll Harrison Educational Service Center, Carroll County, Ohio, as of and for the year ended June 30, 1998, and have issued our report thereon dated December 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Carroll Harrison 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 Center in a separate letter dated December 18, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Carroll Harrison Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated December 18, 2000.

Carroll Harrison Educational Service Center  
Carroll County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

**Jim Petro**  
Auditor of State

December 18, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**CARROLL HARRISON EDUCATIONAL SERVICE CENTER**

**CARROLL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 13, 2001**