



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FAIRFIELD EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
GENERAL PURPOSE FINANCIAL STATEMENTS:	
Combined Balance Sheet - All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - (Non-GAAP Basis) All Governmental Fund Types	5
Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type	7
Statement of Cash Flows - Proprietary Fund Type	8
Notes to the General Purpose Financial Statements	9
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29

THIS PAGE INTENTIONALLY LEFT BLANK



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Fairfield County Educational Service Center
Fairfield County
126 West Main Street
Lancaster, Ohio 43130

We have audited the accompanying general-purpose financial statements of Fairfield County Educational Service Center, Fairfield County, Ohio, (the 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 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 general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Fairfield County Educational Service Center, Fairfield County, Ohio, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2001 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.

JIM PETRO
Auditor of State

January 25, 2001

THIS PAGE INTENTIONALLY LEFT BLANK

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

	Governmental Fund		Proprietary	Account Groups		Totals
	Special		Fund Type	General	General	1999
	General	Revenue	Internal Service	Fixed Assets	Long Term Obligations	(Memorandum Only)
Assets and Other Debits:						
Equity in Pooled Cash and Investments	\$ 476,231	150,840	27,803	0	0	\$ 654,874
Cash with Fiscal Agent	0	0	98,166	0	0	98,166
Intergovernmental Receivables	115,583	49,970	0	0	0	165,553
Inventory	790	0	0	0	0	790
Property, Plant, and Equipment	0	0	0	146,379	0	146,379
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0	179,123	179,123
Total Assets and Other Debits	\$ 592,604	200,810	125,969	146,379	179,123	\$ 1,244,885
Liabilities:						
Intergovernmental Payables	\$ 268,708	2,291	0	0	0	\$ 270,999
Accounts Payable	18,727	12,972	38	0	0	31,737
Claims Payable	0	0	14,557	0	0	14,557
Accrued Salaries and Benefits	163,836	0	0	0	0	163,836
Capital Leases Payable	0	0	0	0	32,903	32,903
Compensated Absences Payable	34,548	0	0	0	146,220	180,768
Total Liabilities	485,819	15,263	14,595	0	179,123	694,800
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	146,379	0	146,379
Retained Earnings	0	0	111,374	0	0	111,374
Fund Balances:						
Reserved for Inventory	790	0	0	0	0	790
Reserved for Encumbrances	1,359	3,354	0	0	0	4,713
Unreserved Fund Balance	104,636	182,193	0	0	0	286,829
Total Fund Balances	106,785	182,193	0	0	0	288,978
Total Fund Balances/Retained Earnings	106,785	185,547	111,374	0	0	403,706
Total Liabilities, Fund Equity, and Other Credits	\$ 592,604	200,810	125,969	146,379	179,123	\$ 1,244,885

See Accompanying Notes to the General Purpose Financial Statements.

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

	<u>Governmental Fund</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
REVENUES:			
Revenue from Local Sources			
Tuition	\$575,502	0	\$ 575,502
Earnings on Investments	14,469	0	14,469
Miscellaneous	236,723	0	236,723
Revenue from State Sources			
Unrestricted Grants-in-Aid	2,036,359	0	2,036,359
Restricted Grants-in-Aid	0	3,000	3,000
Revenue from Federal Sources			
Restricted Grants-in-Aid	24,481	358,879	383,360
Total Revenue	<u>2,887,534</u>	<u>361,879</u>	<u>3,249,413</u>
EXPENDITURES:			
Instruction			
Regular Instruction	59,182	0	59,182
Special Instruction	550,220	0	550,220
Supporting Services			
Supporting Services-Pupils	913,034	30,524	943,558
Supporting Services-Instructional Staff	618,988	171,451	790,439
Supporting Services-Board of Education	10,115	0	10,115
Supporting Services-Administration	580,354	40,179	620,533
Fiscal Services	73,509	5,991	79,500
Capital Outlay	447	0	447
Total Expenditures	<u>2,805,849</u>	<u>248,145</u>	<u>3,053,994</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	81,685	113,734	195,419
Other Financing Sources and Uses:			
Other Financing Sources	87	0	87
Net Other Financing Sources	<u>87</u>	<u>0</u>	<u>87</u>
Excess (Deficiency) of Revenue and Other Sources Over (Under) Expenditure and Other Uses	81,772	113,734	195,506
Increase in Inventory	232	0	232
Beginning Fund Balance	24,781	71,813	96,594
Ending Fund Balance	<u>\$106,785</u>	<u>185,547</u>	<u>\$ 292,332</u>

See Accompanying Notes to the General Purpose Financial Statements.

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

	General Fund			Special Revenue Funds		
	Revised	Actual	Variance	Revised	Actual	Variance
	Budget		Favorable (Unfavorable)	Budget		Favorable (Unfavorable)
Revenues:						
Tuition	\$ 457,359	547,309	89,950	0	0	\$ 0
Earnings on Investment	0	12,867	12,867	0	0	0
Miscellaneous	202,086	268,120	66,034	0	0	0
State Unrestricted Grants-in-Aid	693,308	2,036,359	1,343,051	0	0	0
State Restricted Grants-in-Aid	0	0	0	0	3,000	3,000
Federal Restricted Grants-in-Aid	0	10,299	10,299	0	308,909	308,909
Total Revenue	1,352,753	2,874,954	1,522,201	0	311,909	311,909
Expenditures:						
Regular Instruction	66,375	64,209	2,166	0	0	0
Special Instruction	636,376	559,010	77,366	0	0	0
Support Services-Pupils	1,050,615	976,160	74,455	37,483	36,675	808
Support Services-Instructional Staff	760,970	708,321	52,649	286,531	179,821	106,710
Support Services-Board of Education	16,008	10,115	5,893	0	0	0
Support Services-Administration	602,498	572,251	30,247	61,108	34,922	26,186
Fiscal Services	81,181	72,253	8,928	6,436	5,982	454
Site Improvement	447	447	0	0	0	0
Total Expenditures	3,214,470	2,962,766	251,704	391,558	257,400	134,158
Excess of Revenue Over (Under) Expenditures	(1,861,717)	(87,812)	1,773,905	(391,558)	54,509	446,067
Other Financing Sources (Uses):						
Refund of Prior Years Expense	0	58	58	0	0	0
Total Other Sources (Uses)	0	58	58	0	0	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,861,717)	(87,754)	1,773,963	(391,558)	54,509	446,067
Beginning Fund Balance	110,035	110,035	--	64,931	64,931	--
Prior Year Carry Over Encumbrances	209,262	209,262	--	14,717	14,717	--
Ending Fund (Deficit) Balance	\$ (1,542,420)	231,543	1,773,963	(311,910)	134,157	\$ 446,067

(Continued)

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

Totals (Memorandum Only)			
	Revised		Variance
	Budget	Actual	Favorable
			(Unfavorable)
Revenues:			
Tuition	457,359	547,309	\$ 89,950
Earnings on Investment	0	12,867	12,867
Miscellaneous	202,086	268,120	66,034
State Unrestricted Grants-in-Aid	693,308	2,036,359	1,343,051
State Restricted Grants-in-Aid	0	3,000	3,000
Federal Restricted Grants-in-Aid	0	319,208	319,208
Total Revenue	1,352,753	3,186,863	1,834,110
Expenditures:			
Regular Instruction	66,375	64,209	2,166
Special Instruction	636,376	559,010	77,366
Support Services-Pupils	1,088,098	1,012,835	75,263
Support Services-Instructional Staff	1,047,501	888,142	159,359
Support Services-Board of Education	16,008	10,115	5,893
Support Services-Administration	663,606	607,173	56,433
Fiscal Services	87,617	78,235	9,382
Support Services-Central	447	447	0
Total Expenditures	3,606,028	3,220,166	385,862
Excess of Revenue Over (Under) Expenditures	(2,253,275)	(33,303)	2,219,972
Other Financing Sources (Uses):			
Refund of Prior Years Expense	0	58	58
Total Other Sources (Uses)	0	58	58
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,253,275)	(33,245)	2,220,030
Beginning Fund Balance	174,966	174,966	--
Prior Year Carry Over Encumbrances	223,979	223,979	--
Ending Fund (Deficit) Balance	\$ (1,854,330)	365,700	2,220,030

See Accompanying Notes to the General Purpose Financial Statements.

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

	Internal Service
Operating Revenues:	
Insurance Revenues	\$ 249,563
Total Operating Revenue	249,563
Operating Expenses:	
Insurance Expenses	200,066
Total Operating Expenses	200,066
Operating Income	49,497
Net Income	49,497
Beginning Retained Earnings	61,877
Retained Earnings at End of Year	\$ 111,374

See Accompanying Notes to the General Purpose Financial

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

	Internal Service
Cash Flows from Operating Activities	
Operating Income	\$ 49,497
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Net Increase (Decrease) in Liabilities:	
Accounts Payable	38
Claims Payable	2,137
Net Adjustments	2,175
Net Cash Provided By Operating Activities	51,672
Net Increase in Cash & Cash Equivalents	51,672
Cash and Cash Equivalents at Beginning of Year	74,297
Cash and Cash Equivalents at End of Year	\$ 125,969

See Accompanying Notes to General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

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

The Center serves seven local school districts: Amanda-Clearcreek Local, Berne Union Local, Bloom Carroll Local, Fairfield Union Local, Liberty Union-Thurston Local, Pickerington Local and Walnut Township Local as provided by S.B. 140, O.R.C. Section 3313.483. Lancaster City School District and other school districts outside Fairfield County are served on an individual contract basis for various services.

The Center is located in Lancaster, Ohio and is staffed by thirty-six certified and eleven non-certified personnel. The Fairfield County commissioners, as required by State statute, provide the offices for the use of the Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable. This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

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

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

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

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

B. Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Governmental Fund Types: (continued)

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The Center currently has no Debt Service Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by proprietary and trust funds). The Center currently has no Capital Projects Funds.

Proprietary Fund Types:

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

Enterprise Funds - These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Center currently has no Enterprise Funds.

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

Fiduciary Fund Types:

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

Expendable Trust Funds - These funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Nonexpendable Trust Funds - These funds account for trust principal which may not be expended. Only interest earned on the principal may be used for trust operations. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. The Center currently has no nonexpendable trust funds.

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations. The Center currently has no Agency Funds.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Account Groups:

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

General Fixed Assets Account Group - This account group is used to account for all of the Center's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all of the Center's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus/Basis of Accounting

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

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

The Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budget and Budgetary Accounting

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

SF-5

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

Appropriations

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

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

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

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budget and Budgetary Accounting (continued)

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

E. Cash and Investments

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

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 1999 totaled \$14,469.

F. Taxes

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

G. Inventories

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Prepaid Items

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

I. Fixed Assets

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

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized (\$200 threshold) and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated.

J. Intergovernmental Revenues

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

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

Entitlements:

General Fund

State Foundation Program

CAFS

Special Revenue Funds

Educational Management Information Systems

Non-Reimbursable Grants:

Special Revenue Funds

Eisenhower Grant

Title VI-B Early Childhood Preschool

Drug Free Schools Grant

Goals 2000

CIP Grant

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Intergovernmental Revenues (Continued)

Grants and entitlements amounted to approximately 75% of the Center's operating revenue during the 1999 fiscal year.

K. Advances to Other Funds

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

L. Compensated Absences

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

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

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

M. Long-Term Obligations

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

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Interfund Transactions

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

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

O. Fund Balance Reserves

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

P. Memorandum Only - Total Columns

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

2. BUDGETARY BASIS OF ACCOUNTING

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 Governmental Fund Types	
	General Fund	Special Revenue
GAAP Basis	\$ 81,772	113,734
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue	(12,580)	(49,970)
Due to Expenditures:		
Net Adjustments to Expenditure	(156,917)	(9,255)
Due to Other Sources/Uses	(29)	0
Budget Basis	\$ (87,754)	54,509

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

4. CASH 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 Governing Board 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 or deposit accounts including pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

4. CASH AND INVESTMENTS (Continued)

6. The State Treasurer's investment pool (STAR Ohio)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year end, the carrying amount of the Center's deposits was \$344,976 and the bank balance was \$350,444. Of the bank balance, \$100,000 was covered by federal depository insurance and \$250,444 was covered by the bank's pooled collateral program. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

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

	Unclassified	Reported Amount	Fair Value
STAR Ohio	<u>\$ 309,898</u>	<u>\$ 309,898</u>	<u>\$ 309,898</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." 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:

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

4. CASH AND INVESTMENTS (Continued)

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 654,874	\$ 0
Investments:		
Star Ohio	(309,898)	309,898
GASB Statement No. 3	\$ 344,976	\$ 309,898

5. RECEIVABLES

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

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Tuition and Other Services	\$ 101,401
CAFS	14,182
Total General Fund	115,583
Special Revenue Fund:	
CIP Grant	49,970
Grand Total	\$ 165,553

6. FIXED ASSETS

In prior years, the Center has capitalized fixed assets with a cost of less than \$200 which is not consistent with the Center's capitalization policy. As a result of this correction, a restatement of the General Fixed Assets Account Group balances at June 30, 1998 is necessary

The following table restates the General Fixed Assets Account Group at June 30, 1998:

	June 30, 1998 as reported	Adjustments	June 30, 1998 as restated
Furniture and Equipment	\$ 123,626	(9,260)	\$ 114,366
Total General Fixed Assets	\$ 123,626	(9,260)	\$ 114,366

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

6. FIXED ASSETS (Continued)

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

	General Fixed Assets June 30, 1998	Additions	Deletions	General Fixed Assets June 30, 1999
Furniture and Equipment	\$ 114,366	33,768	1,755	\$ 146,379
Total General Fixed Assets	<u>\$ 114,366</u>	<u>33,768</u>	<u>1,755</u>	<u>\$ 146,379</u>

7. DEFINED BENEFIT PENSION PLANS

A. 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. The 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; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS 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 years ended June 30, 1999, 1998 and 1997 were \$36,892, \$28,046, and \$23,505, respectively. 100 percent been contributed for fiscal years 1999 except for the surcharge liability of \$3,815 and 100 percent has been contributed for 1998 and 1997.

B. 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. The 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 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 the fiscal years ended June 30, 1999, 1998 and 1997 were: \$257,516, \$223,026, and \$214,725, respectively; no contributions have been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (continued)

\$257,516 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. As of June 30, 1999, none of the Governing Board members has elected social security. The Board's liability is 6.2 percent of wages paid.

8. POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 funded on a pay as you go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1998, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1998, this allocation was increased to 3.5 percent. For the Center, this amount equaled \$64,379 during fiscal 1999.

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

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

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 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 has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

8. POSTEMPLOYMENT BENEFITS (continued)

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160.3 million (the latest information available). SERS has approximately 50,000 participants currently receiving health care benefits. For the Center, the amount to fund health care benefits, including the surcharge, equaled \$16,937 during the 1999 fiscal year.

9. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center Policy and State laws. Only Administrative and support personnel who are under a 11 or 12 month contract are eligible for vacation time.

Employees earn ten to twenty days of vacation per year, depending upon length of service. Employees can accumulate one and one half times their vacation to a maximum of thirty days. Accumulated, unused vacation time is paid to employees upon termination of employment.

Personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-5	10
6-10	15
11-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 200 days.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 40 days.

10. RISK MANAGEMENT

A. General Risk

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$1,000,000 in the aggregate.

The Center maintains replacement cost insurance on building contents in the amount of \$81,700. Other insurance includes electronic data processing equipment and telephone system coverage in the amount of \$69,134.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

10. RISK MANAGEMENT (continued)

B. Public Entity Risk Pools

Workers Compensation

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

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

Health Insurance

The Center has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

This self-insurance fund was established in January, 1996 when the Center joined the South Central Ohio Insurance Consortium (SCOIC) for the purpose of accumulating balances sufficient to self-insure basic medical, dental, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. SCOIC currently includes eight member school districts and one city entity. The Liberty-Union Thurston School District serves as the fiscal agent for the consortium. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent.

Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the General Fund. Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

10. RISK MANAGEMENT (continued)

B. Public Entity Risk Pools (continued)

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$14,557 at June 30, 1999.

A summary of changes in self-insurance claims for the year ended June 30, 1999:

	June 30, 1999	June 30, 1998
Claim Liabilities at beginning of year	\$ 12,420	\$ 16,708
Incurred Claims	160,195	159,741
Claims Paid	(158,058)	(164,029)
Claim Liabilities at end of year	<u>\$ 14,557</u>	<u>\$ 12,420</u>

11. NOTES AND LONG-TERM DEBT

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

	Balance			Balance
	July 1, 1998	Additions	Deletions	June 30, 1999
Capital Leases Payable	\$ 34,314	6,323	7,734	\$ 32,903
Compensated Absences Payable	175,999	146,220	175,999	146,220
Total	<u>\$ 210,313</u>	<u>152,543</u>	<u>183,733</u>	<u>\$ 179,123</u>

12. LEASES

The Center is making installment payments on two copiers purchased with an original cost of \$16,911. This equipment has been capitalized in the general fixed assets account group. This obligation has an outstanding balance of \$10,228 at June 30, 1999.

The Center lease purchased a telephone system in March, 1998 with an original cost of \$12,118. This equipment has been capitalized in the general fixed assets account group. This obligation has an outstanding balance of \$9,638 at June 30, 1999.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

12. LEASES (continued)

The Center leased purchased computers in October, 1997 with an original cost of \$10,717. This equipment has been capitalized in the general fixed assets account group. This obligation has an outstanding balance of \$6,714 at June 30, 1999.

The Center leased purchased computers in December, 1998 with an original cost of \$6,985. This equipment has been capitalized in the general fixed assets account group. This obligation has an outstanding balance of \$6,323 at June 30, 1999.

Payment for the installment purchase obligations as of June 30, 1999, and related interest.

	Copier Lease	Telephone Lease	Computer Lease	Computer Lease
FY2000	4,596	3,220	3,201	\$ 2,337
FY2001	4,596	3,220	3,201	2,337
FY2002	2,558	3,220	1,067	2,337
FY2003	0	2,146	0	1,168
	11,750	11,806	7,469	8,179
Less interest:	(1,522)	(2,168)	(755)	(1,856)
Present Value of Minimum Lease Payments	\$ 10,228	9,638	6,714	\$ 6,323

13. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council

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

Central Ohio Special Education Regional Resource Center (COSERRC)

The Fairfield County Educational Service Center passes a motion each year to become members of COSERRC. The superintendent of the Center is appointed by the Fairfield County Educational Service Center to be the delegate to the Governing Board. COSERRC provides special education services at a regional level, as determined by each of the participating local school districts. The Center has no ongoing financial interest or financial responsibility to COSERRC.

Fairfield County Council for Educational Collaboration

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Fairfield County Council for Educational Collaboration (continued)

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school systems and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council.

The Center appoints the superintendent to be its representative to the Board of Directors of this council.

The Center has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration.

Eastland Joint Vocational School District

The Fairfield County Educational Service Center is a member of the Eastland Joint Vocational School District. The Eastland Joint Vocational School District has a nine-member board of education. Representatives to the Eastland Board consists of two of the Centers board members on the Eastland board of education for two years, then three of members for the next two years. The Center alternates this schedule with the Franklin County Educational Service Center.

The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland Joint Vocational School District.

South Central Ohio Insurance Consortium

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The Center does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than claims paid on behalf of the Center for Center employees.

14. CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 1999.

**EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

14. CONTINGENCIES (continued)

B. Litigation

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

15. 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 Center. During the fiscal year ended June 30, 1999, the Center received \$2,036,359 of school foundation support for its general fund.

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

The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of this date the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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



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

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

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

Board of Education
Fairfield County Educational Service Center
Fairfield County
126 West Main Street
Lancaster, Ohio 43130

We have audited the general purpose financial statements of Fairfield County Educational Service Center, Fairfield County, Ohio, (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 25, 2001. 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 Center's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. 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 general-purpose 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 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 Center in a separate letter dated January 25, 2001.

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

JIM PETRO
Auditor of State

January 25, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

FAIRFIELD 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
MARCH 13, 2001**