



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Scioto County Joint Vocational School, the Educational Service Center's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts included for the Scioto County Joint Vocational School, is based upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Central Ohio Educational Service Center, Scioto County, as of June 30, 2001 and the results of its operations and the cash flows of its discretely presented component unit for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, as described in Note 18 to the general purpose financial statements, the Educational Service Center adopted Governmental Accounting Statements Nos. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

We performed our audit to form an opinion on the general-purpose financial statements of the Educational Service Center, taken as a whole. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

February 22, 2002

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South Central Ohio Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 And Discretely Presented Component Unit
 June 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$484,936	\$719,197	\$6,361
Receivables:			
Taxes	0	0	0
Accounts	0	0	0
Intergovernmental	59,306	301,240	0
Prepaid Items	2,056	0	0
Inventory Held for Resale	0	0	0
Materials and Supplies Inventory	0	0	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0
<u>Other Debits:</u>			
Amount to be Provided from General Government Resources	0	0	0
 Total Assets and Other Debits	 \$546,298	 \$1,020,437	 \$6,361
 <u>Liabilities, Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$22,600	\$381,201	\$0
Accrued Wages and Benefits	80,092	247,938	0
Compensated Absences Payable	17,252	4,260	0
Intergovernmental Payable	38,881	47,093	0
Deferred Revenue	0	0	0
Undistributed Monies	0	0	0
Notes Payable	0	0	0
Capital Leases Payable	0	0	0
Energy Conservation Bonds	0	0	0
 Total Liabilities	 158,825	 680,492	 0
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	14,996	68,031	0
Reserved for Inventory	0	0	0
Reserved for Property Taxes	0	0	0
Reserved for Capital Improvements	0	0	0
Unreserved:			
Undesignated	372,477	271,914	6,361
 Total Fund Equity and Other Credits	 387,473	 339,945	 6,361
Total Liabilities, Fund Equity and Other Credits	 \$546,298	 \$1,020,437	 \$6,361

See accompanying notes to the general purpose financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only) Primary Government	Component Unit Scioto County Joint Vocational School	Totals (Memorandum Only) Reporting Entity
	General Fixed Assets	General Long-Term Obligations			
Agency					
\$2,877,759	\$0	\$0	\$4,088,253	\$3,288,987	\$7,377,240
0	0	0	0	2,971,158	2,971,158
0	0	0	0	430,453	430,453
0	0	0	360,546	16,609,809	16,970,355
0	0	0	2,056	0	2,056
0	0	0	0	14,995	14,995
0	0	0	0	20,333	20,333
0	0	0	0	201,819	201,819
0	253,601	0	253,601	7,359,297	7,612,898
0	0	442,409	442,409	875,703	1,318,112
<u>\$2,877,759</u>	<u>\$253,601</u>	<u>\$442,409</u>	<u>\$5,146,865</u>	<u>\$31,772,554</u>	<u>\$36,919,419</u>
\$0	\$0	\$0	\$403,801	\$153,576	\$557,377
0	0	0	328,030	457,851	785,881
0	0	369,599	391,111	403,307	794,418
0	0	7,454	93,428	325,822	419,250
0	0	0	0	18,691,239	18,691,239
2,877,759	0	0	2,877,759	8,027	2,885,786
0	0	0	0	1,120,000	1,120,000
0	0	65,356	65,356	74,810	140,166
0	0	0	0	390,000	390,000
<u>2,877,759</u>	<u>0</u>	<u>442,409</u>	<u>4,159,485</u>	<u>21,624,632</u>	<u>25,784,117</u>
0	253,601	0	253,601	7,174,666	7,428,267
0	0	0	0	782,478	782,478
0	0	0	83,027	40,900	123,927
0	0	0	0	19,383	19,383
0	0	0	0	126,619	126,619
0	0	0	0	201,819	201,819
0	0	0	650,752	1,802,057	2,452,809
<u>0</u>	<u>253,601</u>	<u>0</u>	<u>987,380</u>	<u>10,147,922</u>	<u>11,135,302</u>
<u>\$2,877,759</u>	<u>\$253,601</u>	<u>\$442,409</u>	<u>\$5,146,865</u>	<u>\$31,772,554</u>	<u>\$36,919,419</u>

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South Central Ohio Educational Service Center
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balance
 All Governmental Fund Types
 and Discretely Presented Component Unit
 For the Fiscal Year Ended June 30, 2001

	General	Special Revenue	Capital Projects	Totals (Memorandum Only) Primary Government	Scioto County Joint Vocational School	Totals (Memorandum Only) Reporting Entity
<u>Revenues:</u>						
Intergovernmental	\$2,222,056	\$3,695,104	\$1,000	\$5,918,160	\$8,460,856	\$14,379,016
Taxes	0	0	0	0	2,383,068	2,383,068
Tuition and Fees	0	0	0	0	63,754	63,754
Interest	35,130	0	0	35,130	138,698	173,828
Customer Services	453,114	271,482	0	724,596	6,075	730,671
Miscellaneous	0	175,795	0	175,795	580,739	756,534
Total Revenues	2,710,300	4,142,381	1,000	6,853,681	11,633,190	18,487,871
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	0	95,122	0	95,122	0	95,122
Special	14,317	3,286,509	0	3,300,826	68,174	3,369,000
Vocational	0	706	0	706	3,392,679	3,393,385
Adult/Continuing	21,892	0	0	21,892	0	21,892
Other	3,417	0	0	3,417	16,424	19,841
Support Services:						
Pupils	545,303	254,882	0	800,185	4,542,918	5,343,103
Instructional Staff	1,178,954	161,820	1,720	1,342,494	296,536	1,639,030
Board of Education	22,108	0	0	22,108	5,738	27,846
Administration	575,288	854,304	0	1,429,592	418,454	1,848,046
Fiscal	158,572	48,036	0	206,608	297,457	504,065
Business	0	0	0	0	86,897	86,897
Operation and Maintenance of Plant	0	38,956	0	38,956	921,082	960,038
Central	212,684	18,388	0	231,072	157,719	388,791
Extracurricular Activities	0	0	0	0	47,164	47,164
Capital Outlay	0	7,487	0	7,487	2,189	9,676
Debt Service:						
Debt Service - Principal	9,860	2,309	0	12,169	197,253	209,422
Debt Service - Interest	12,489	2,960	0	15,449	105,572	121,021
Total Expenditures	2,754,884	4,771,479	1,720	7,528,083	10,556,256	18,086,059
Excess of Revenues Under Expenditures	(44,584)	(629,098)	(720)	(674,402)	1,076,934	401,812
<u>Other Financing Sources (Uses):</u>						
Operating Transfers In	72,689	298,242	0	370,931	164,372	535,303
Operating Transfers Out	(24,397)	(346,534)	0	(370,931)	(201,593)	(572,524)
Total Other Financing Sources (Uses)	48,292	(48,292)	0	0	(37,221)	(37,221)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	3,708	(677,390)	(720)	(674,402)	1,039,713	365,311
Decrease in Inventory	0	0	0	0	(27,731)	(27,731)
Fund Balances at Beginning of Year - Restated (Note 18)	383,765	1,017,335	7,081	1,408,181	1,178,796	2,586,977
Fund Balances at End of Year	\$387,473	\$339,945	\$6,361	\$733,779	\$2,190,778	\$2,924,557

See accompanying notes to the general purpose financial statements

South Central Ohio Educational Service Center
Combined Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Intergovernmental	\$2,201,042	\$2,201,042	\$0	\$4,468,831	\$4,468,831	\$0
Interest	51,130	51,130	0	0	0	0
Customer Services	534,104	534,104	0	271,434	271,434	0
Miscellaneous	0	0	0	175,795	175,795	0
Total Revenues	2,786,276	2,786,276	0	4,916,060	4,916,060	0
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	0	0	0	95,122	95,122	0
Special	0	0	0	3,465,355	3,465,355	0
Vocational	0	0	0	634	634	0
Adult/Continuing	21,527	21,527	0	0	0	0
Other	3,417	3,417	0	0	0	0
Support Services:						
Pupils	563,912	563,912	0	260,523	260,523	0
Instructional Staff	1,188,176	1,188,176	0	188,874	188,874	0
Board of Education	21,485	21,485	0	0	0	0
Administration	589,918	589,918	0	887,319	887,319	0
Fiscal	159,391	159,391	0	47,503	47,503	0
Operation and Maintenance of Plant	0	0	0	38,956	38,956	0
Central	243,890	243,890	0	34,556	34,556	0
Capital Outlay	0	0	0	7,487	7,487	0
Total Expenditures	2,791,716	2,791,716	0	5,026,329	5,026,329	0
Excess of Revenues Under Expenditures	(5,440)	(5,440)	0	(110,269)	(110,269)	0
<u>Other Financing Sources (Uses):</u>						
Refund of Prior Year Expenditures	212	212	0	20,378	20,378	0
Operating Transfers In	72,689	72,689	0	298,242	298,242	0
Operating transfers Out	(24,475)	(24,475)	0	(346,534)	(346,534)	0
Total Other Financing Sources (Uses)	48,426	48,426	0	(27,914)	(27,914)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	42,986	42,986	0	(138,183)	(138,183)	0
Fund Balance at Beginning of Year	412,738	412,738	0	465,663	465,663	0
Prior Year Encumbrances Appropriated	7,410	7,410	0	228,346	228,346	0
Fund Balances at End of Year	\$463,134	\$463,134	\$0	\$555,826	\$555,826	\$0

See accompanying notes to the general purpose financial statements

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,000	\$1,000	\$0	\$6,670,873	\$6,670,873	\$0
0	0	0	51,130	51,130	0
0	0	0	805,538	805,538	0
0	0	0	175,795	175,795	0
1,000	1,000	0	7,703,336	7,703,336	0
0	0	0	95,122	95,122	0
0	0	0	3,465,355	3,465,355	0
0	0	0	634	634	0
0	0	0	21,527	21,527	0
0	0	0	3,417	3,417	0
0	0	0	824,435	824,435	0
2,000	2,000	0	1,379,050	1,379,050	0
0	0	0	21,485	21,485	0
0	0	0	1,477,237	1,477,237	0
0	0	0	206,894	206,894	0
0	0	0	38,956	38,956	0
0	0	0	278,446	278,446	0
0	0	0	7,487	7,487	0
2,000	2,000	0	7,820,045	7,820,045	0
(1,000)	(1,000)	0	(116,709)	(116,709)	0
0	0	0	20,590	20,590	0
0	0	0	370,931	370,931	0
0	0	0	(371,009)	(371,009)	0
0	0	0	20,512	20,512	0
(1,000)	(1,000)	0	(96,197)	(96,197)	0
7,361	7,361	0	885,762	885,762	0
0	0	0	235,756	235,756	0
\$6,361	\$6,361	\$0	\$1,025,321	\$1,025,321	\$0

South Central Ohio Educational Service Center
 Combined Statement of Revenues,
 Expenses and Changes in Retained Earnings
 Discretely Presented Component Unit
 For the Fiscal Year Ended June 30, 2001

	<u>Scioto County Joint Vocational School</u>
<u>Operating Revenues:</u>	
Tuition	\$1,404,843
Sales	46,576
Other Operating Revenues	<u>51,240</u>
 Total Operating Revenues	 1,502,659
<u>Operating Expenses:</u>	
Salaries	970,675
Fringe Benefits	361,525
Purchased Services	54,456
Materials and Supplies	340,683
Cost of Sales	52,421
Depreciation	24,160
Other	<u>2,073</u>
 Total Operating Expenses	 <u>1,805,993</u>
 Operating Loss	 (303,334)
<u>Non-Operating Revenues :</u>	
Federal Donated Commodities	11,978
Federal and State Subsidies	<u>598,447</u>
 Total Non-Operating Revenues	 <u>610,425</u>
 Net Income Before Operating Transfers	 307,091
Other Financing Sources and (Uses):	
Operating Transfers In	<u>37,221</u>
 Total Other Financing Sources and (Uses)	 <u>37,221</u>
 Net Income	 344,312
 Retained Earnings at July 1, 2000	 <u>438,166</u>
 Retained Earnings at June 30, 2001	 <u><u>\$782,478</u></u>

South Central Ohio Educational Service Center
 Combined Statement of Cash Flows
 Discretely Presented Component Unit
 For the Fiscal Year Ended June 30, 2001

	Scioto County Joint Vocational School
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$46,576
Cash Received from Tuition Payments	1,022,650
Cash Received from Other Operating Sources	152,496
Cash Payments to Suppliers for Goods and Services	(418,221)
Cash Payments to Employees for Services	(951,880)
Cash Payments for Employee Benefits	(291,702)
	(440,081)
Net Cash Used for Operating Activities	(440,081)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Subsidies	601,622
Transfers In	37,221
	638,843
Net Cash Provided by Noncapital Financing Activities	638,843
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(38,611)
	(38,611)
Net Cash Used for Capital and Related Financing Activities	(38,611)
Net Increase in Cash and Cash Equivalents	160,151
Cash and Cash Equivalents at July 1, 2000	275,402
	\$435,553
Cash and Cash Equivalents at June 30, 2001	\$435,553
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$303,334)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>	
Depreciation	24,160
Donated Commodities Used During Year	11,978
<u>Changes in Assets and Liabilities:</u>	
(Increase)/Decrease in Accounts Receivable	(280,936)
(Increase)/Decrease in Inventory Held for Resale	(2,528)
Increase/(Decrease) in Material & Supplies Inventory	1,210
Increase/(Decrease) in Accounts Payable	19,902
Increase/(Decrease) in Accrued Wages	24,520
Increase/(Decrease) in Compensated Absences Payable	13,434
Increase/(Decrease) in Intergovernmental Payable	50,664
Increase/(Decrease) in Deferred Revenue	849
	(136,747)
Total Adjustments	(136,747)
Net Cash Used For Operating Activities	(\$440,081)

See accompanying notes to the general purpose financial statements

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South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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

The South Central Ohio Educational Service Center (the “Educational Service Center”) is located in Portsmouth, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Adams County Ohio Valley, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, and Wheelersburg Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 38 classified, 52 certified, and 3 Administrative personnel that provide services to the local, city, and joint vocational school district.

Reporting Entity:

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organizations' governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Scioto County Joint Vocational School is a component unit of the South Central Ohio Educational Service Center.

The component unit column in the combined financial statements identifies the financial data of the Educational Service Center's discretely presented component unit, the Scioto County Joint Vocational School. It is reported separately to emphasize that it is legally separately from the Educational Service Center.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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

The Scioto County Joint Vocational School is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an appointed Board form of government consisting of five members appointed at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District is a discretely presented component unit of South Central Ohio Educational Service Center (the Service Center), a legally separate body politic. Three out of the five board members of the Scioto County Joint Vocational School District are also board members of the Service Center. The Joint Vocational School is responsible for levying taxes, approving its own budgets, appointing personnel, and accounting and financing related activities.

Separately issued financial statements can be obtained from the Scioto County Joint Vocational School District, P.O. Box 766, Lucasville, Ohio 45648.

The Educational Service Center is associated with five organizations, one of which is a discretely presented component unit, three of which are defined as jointly governed organizations, and one as a public entity shared risk pool. These organizations are the Scioto County Joint Vocational School, the South Central Ohio Computer Association, the Family and Children First Council of Scioto County, the Coalition of Rural and Appalachian Schools, and the Scioto County Schools Council. Information about these organizations is presented in Notes 15, 16 and 20 to the general purpose financial statements.

The Educational Service Center serves as fiscal agent for the Scioto County Schools Council and the Family Children First Council. Accordingly, these activities are presented as agency funds within the Educational Service Center financial statements.

The information in Notes 2 through Note 19 relate to the primary government. Information relating to the discretely presented component unit is presented in Note 20.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

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

. *General Fixed Assets Account Group* - This account group is established to account for all fixed assets of the Educational Service Center.

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

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental and agency funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include, grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, only grants are considered to be both measurable and available at fiscal year-end.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

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

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund, function and object level for the general fund and fund, function level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Educational Service Center. Budgetary allocations at the function and object level within all funds are made by the Service Center Treasurer. Because the activity of agency funds is not budgeted, transfers-in and transfers-out do not equal on a budgetary basis due to transfers totaling \$78 to agency funds.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Appropriations:

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

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

Encumbrances:

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2001, the Educational Service Center's investments included a repurchase agreement and STAROhio. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The Educational Service Center has invested funds in the State Treasury Assets Reserve of Ohio (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$35,130, which includes \$16,198 assigned from other Educational Service Center funds.

For presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation

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

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

G. Compensated Absences

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

The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for certified employees and support staff after 10 years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

H. Accrued Liabilities and Long-Term Obligations

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Transactions

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

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Fund Balance Reserves

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

K. Estimates

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

L. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. When the title of a statement indicates that a component unit is included, two total columns are presented. The first is captioned "Primary Government" to indicate that only those activities that comprise the Educational Service District's legal entity have been included. The second is captioned "Reporting Entity" and includes the activity and operations of the Educational Service District's separate discretely presented component unit (see Note 1). The "Totals" column on statements which do not include a component unit have no additional caption.

NOTE 3 - ACCOUNTABILITY

At June 30, 2001, the Cooperative Low Incidence Special Revenue Fund had a deficit fund balance of \$251,440. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

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

	General	Special Revenue	Capital Projects
GAAP Basis	\$3,708	(\$677,390)	(\$720)
Revenue Accruals	76,188	773,679	0
Expenditure Accruals	(15,030)	(71,101)	(280)
Encumbrances	(21,802)	(163,371)	0
Transfers	(78)	0	0
Budget Basis	\$42,986	(\$138,183)	(\$1,000)

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other 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;

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

Deposits At fiscal year end the carrying amount of the Educational Service Center's deposits was \$1,580,737 and the bank balance was \$1,687,378. Of the bank balance:

1. \$242,000 was covered by federal depository insurance; and
2. \$1,445,378 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

	Category One	Unclassified	Carrying/Fair Value
Repurchase Agreements	\$2,389,705	\$0	\$2,389,705
STAROhio	0	117,811	117,811
Total	<u>\$2,389,705</u>	<u>\$117,811</u>	<u>\$2,507,516</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:

	Cash and Cash Equivalents	Investments
<i>GASB Statement No. 9</i>	\$4,088,253	\$0
Investments:		
Repurchase Agreement	(2,389,705)	2,389,705
STAROhio	(117,811)	117,811
<i>GASB Statement No. 3</i>	<u>\$1,580,737</u>	<u>\$2,507,516</u>

NOTE 6 - STATE FUNDING

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 6 - STATE FUNDING (continued)

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

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001, consisted of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund:	
Dawson Bryant Coordinator Salary Reimbursement	\$5,400
Various School Districts' Tuition Reimbursement	53,906
Total General Fund	59,306
Special Revenue Funds:	
Title I	44,887
Summer Intervention Reading Incentive	236,234
Home Health and Truency	20,119
Total Special Revenue Funds:	301,240
Total Intergovernmental Receivables	\$360,546

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 8 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/01</u>
Furniture, Fixtures and Equipment	<u>\$456,672</u>	<u>\$20,194</u>	<u>\$0</u>	\$476,866
Less: Accumulated Depreciation				<u>(223,265)</u>
Total General Fixed Assets				<u>\$253,601</u>

NOTE 9 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the Educational Service Center contracted with Portsmouth Insurance for property, fleet and inland marine coverage. The Educational Service Center contracted with Nationwide Insurance for liability insurance. Coverages are as follows:

Building and Contents-replacement cost (\$250 deductible)	\$200,000
Inland Marine Coverage (\$250 deductible)	423,000
Crime Insurance	50,000
Automobile Liability	1,000,000
General Liability Per occurrence	2,000,000
Total per year	5,000,000

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

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

The Educational Service Center participates in and is fiscal agent for the Scioto County Schools Council of Governments (SCSCOG), a public entity shared risk pool (Note 16), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the Plan due up to the date of termination plus extended benefits, if any, provided under the Plan. Such claims and expenses shall be paid from the funds of the Council.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$37,128, \$38,426, and \$51,859, respectively; 92.70 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$2,710 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$265,966, \$133,168, and \$142,218, respectively; 86.38 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$36,212 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, four members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$125,984 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 million. For the year ended June 30, 2000, net health care costs paid by STRS were \$383,137,000 and STRS had 99,011 eligible benefit recipients.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$94,085.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Support staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment through a written agreement with the Board. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees.

B. Insurance Benefits

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 12 - EMPLOYEE BENEFITS (Continued)

C. Deferred Compensation

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

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2001 were as follows:

	Principal Outstanding 6/30/00	Additions	Deductions	Principal Outstanding 6/30/01
Pension Obligation	\$7,454	\$7,454	\$7,454	\$7,454
Capital Leases	77,525	0	12,169	65,356
Compensated Absences	428,109	0	58,510	369,599
Total General Long-Term Obligations	<u>\$513,088</u>	<u>\$7,454</u>	<u>\$78,133</u>	<u>\$442,409</u>

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

Capital leases will be paid from the General Fund and Title I Special Revenue Fund.

NOTE 14 - CAPITAL LEASES

The Educational Service Center has entered into lease agreements as lessee for financing the acquisition of four photocopiers with no down payment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group.

The assets acquired through capital leases are as follows:

Asset	General Fixed Assets
Furniture, Fixtures and Equipment	\$88,548

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 14 - CAPITAL LEASES (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2001 were as follows:

Year Ending June 30	General Long-Term Debt
2002	\$32,903
2003	30,372
2004	28,320
Total minimum lease payments	91,595
Less: Amount representing interest	(26,239)
Present value of minimum lease payments	\$65,356

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The South Central Ohio Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the participating counties, two school Treasurers, and one representative of the fiscal agent. The Educational Service Center paid SCOCA \$19,230 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Family and Children First Council of Scioto County - The Family and Children First council of Scioto County is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Mental Retardation and Development Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Educational Service Center made no contributions to the Council during fiscal year 2001. Continued existence of the council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various services for the Educational Service Center administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Council. The Educational Service Center paid \$300 to the Coalition for services provided during the year.

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 17 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2001.

B. Litigation

The Educational Service Center is currently not party to any pending litigation.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

For fiscal year 2001, the School District has implemented *GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions,"* and *GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues,"* which changes how the School District reports certain types of revenues. The implementation of these pronouncements had the following change to the prior year's ending fund balances.

Special Revenue Funds:

Fund Balance at June 30, 2000	\$896,222
GASB 33 Restatement	121,113
Fund Balance at July 1, 2000	<u><u>\$1,017,335</u></u>

NOTE 19 - SUBSEQUENT EVENTS

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 22, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the School Districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

A. Budgetary Process

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 prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(Continued)

B. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

C. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year.

The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

D. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education 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 Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission 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 must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, one supplemental appropriation was legally enacted; however, this amendment was not significant.

E. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents set aside to establish a capital maintenance reserve. This reserve is required by State statute.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

(Continued)

F. Cash

Deposits At year end, the carrying amount of the School District's deposits was (\$44,213) and the bank balance was \$148,882. Of the bank balance:

1. \$100,289 was covered by federal depository insurance; and
2. \$48,593 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District'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 School District'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 School District's name.

	Category 3	Carrying Amount	Fair Value
Investments:			
Repurchase Agreements	\$3,535,019	\$3,535,019	\$3,535,019
Total Investments	\$3,535,019	\$3,535,019	\$3,535,019

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 investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

(Continued)

F. Cash (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,490,806	\$0
Investments:		
Repurchase Agreements	(3,535,019)	3,535,019
GASB Statement 3	(\$44,213)	\$3,535,019

G. Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) are for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001 on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2001 real property taxes are collected in and intended to finance fiscal year 2002.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001 and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(Continued)

G. Property Taxes (Continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$531,180,610	76.88%	\$537,689,870	76.73%
Public Utility	81,595,610	11.81%	82,986,140	11.84%
Tangible Personal Property	78,167,170	11.31%	80,147,510	11.43%
Total Assessed Value	\$690,943,390	100.00%	\$700,823,520	100.00%
Tax rate per \$1,000 of assessed valuation	\$5.37		\$5.37	

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2001, was \$92,719 in the General Fund and \$33,900 in the Permanent Improvement Capital Projects Fund.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(Continued)

H. Receivables

Receivables at June 30, 2001, consisted of property taxes and accounts (rent, billings for user charged services, and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Special Revenue Funds	
21 st Century Grant	\$16,536,607
Carl Perkins	70,098
Eisenhower	1,151
Title VI	<u>1,953</u>
 Total Intergovernmental Receivable	 <u>\$16,609,809</u>

I. Risk Management

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School District contracted with Nationwide Mutual Insurance Company for property and fleet insurance and liability insurance. Coverage provided by Nationwide Mutual Insurance Company is as follows:

Building and Contents-replacement cost (\$25,000 deductible)	\$16,890,141
Boiler and Machinery (\$25,000 deductible)	No limit
Automobile Liability (\$100 deductible)	100,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

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

J. Defined Benefit Pension Plan

1. School Employees Retirement System

The School District's contributions to SERS for the fiscal years ending June 30, 2001, 2000, and 1999 were \$60,197, \$85,944, and \$89,107 respectively, 12 percent has been contributed for fiscal year 2001, and 100 percent for the fiscal years 2000 and 1999. \$53,047 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

(Continued)

J. Defined Benefit Pension Plan (Continued)

2. State Teachers Retirement System

The District's contribution for pension obligations to STRS for the fiscal years ending June 30, 2001, 2000, and 1999 were \$377,943, \$145,157, and \$78,359 respectively, 84 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$61,935 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

K. Postemployment Benefits

For fiscal year 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$175,319 during fiscal year 2001.

For the Scioto County Joint Vocational School, the amounts contributed to fund postemployment healthcare benefits under SERS, including the surcharge, during fiscal year 2001 equaled \$781,887.

L. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 150 days for all personnel. Upon retirement, payment is made for thirty percent of accrued, but unused sick leave credit to a maximum of 45 days for classified employees and 45 days for certified employees.

M. Other Employee Benefits

The Scioto County Joint Vocational School provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

(Continued)

N. Long-term Obligations

Scioto County JVS Energy Conservation Loan - On December 1, 1995, Scioto County Joint Vocational School District issued \$1,200,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a eight year period with final maturity during fiscal year 2003. The debt will be retired from property taxes.

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	Principal Outstanding 6/30/00	Additions	Deductions	Principal Outstanding 6/30/01
Energy Conservation Loan 1994 6.20%	\$525,000	\$0	\$135,000	\$390,000
Total Long-Term Loans	525,000	0	135,000	390,000
Pension Obligations	82,833	108,198	82,833	108,198
Capital Lease	137,063	0	62,253	74,810
Compensated Absences	295,504	7,191	0	302,695
Total General Long-Term Obligations	\$1,040,400	\$115,389	\$280,086	\$875,703

The School District's voted legal debt margin was \$62,939,117 with an unvoted debt margin of \$700,824 at June 30, 2001.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2001, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2002	\$130,000	\$20,150	\$150,150
2003	130,000	12,090	142,090
2004	130,000	4,030	134,030
Total	\$390,000	\$36,270	\$426,270

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(Continued)

Debt outstanding on June 30, 2001 consisted of the following:

Date of Issue	Interest Rate	Maturity Date	Balance 07/01/00	Additions	Deletions	Balance 06/30/2001
07/07/1999	5.59%	10/01/04	\$1,400,000	0	\$280,000	\$1,120,000

Outstanding Tax Anticipation Notes were issued for school building improvements. Tax Anticipation Notes are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District.

A summary of the District's future amortization of debt funding requirements as of June 30, 2001, follows:

Year of Funding	Principal	Interest	Total
2002	\$280,000	\$54,782	\$334,782
2003	280,000	39,130	319,130
2004	280,000	23,478	303,478
2005	280,000	7,826	287,826
Total	<u>\$1,120,000</u>	<u>\$125,216</u>	<u>\$1,245,216</u>

O. Segment Information For Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food service and adult education. The table below reflects the more significant financial data relating to the enterprise funds of the Scioto County Joint Vocational School District as of and for the fiscal year ended June 30, 2001.

	Food Service	Adult Education	Total Enterprise Funds
Operating Revenues	\$66,447	\$1,436,212	\$1,502,659
Operating Expenses			
less Depreciation	148,893	1,632,940	1,781,833
Depreciation Expense	6,471	17,689	24,160
Operating Income (Loss)	(88,917)	(214,417)	(303,334)
Donated Commodities	11,978	0	11,978
Operating Grants	29,956	568,491	598,447
Operating Transfers - Net	37,221	0	37,221
Net Income	(9,762)	354,074	344,312

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 20 - COMPONENT UNIT - SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

(Continued)

Net Working Capital	(14,663)	612,510	597,847
Total Assets	88,118	918,555	1,006,673
Total Equity	58,460	724,018	782,478
Encumbrances 2001	0	42,390	42,390

P. Litigation

The School District is currently party to legal proceedings. The School District's management is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Q. Set-aside Calculations and Reserves

The following information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization	Total
Cash Balance 07/01/2000	\$0	\$107,438	\$103,045	\$210,483
Current Year Set-Aside Requirement	100,189	100,189	0	200,378
Offset Credits and Pr. Yr. Carryover	(101,155)	0	0	(101,155)
Qualifying Expenditures	(340,881)	(5,808)	0	(346,689)
Reduction in Budget Stabilization based upon Statutory Revisions	0	0	(103,045)	(103,045)
Balance Carried Forward to FY 2002	(\$341,847)	\$201,819	\$0	(\$140,028)
Set Aside Reserve Cash Balance as of June 30, 2001	\$0	\$201,819	\$0	\$201,819

The School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks Reserve, these extra amounts may be carried forward and used to reduce the set-aside requirements of future years.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-SP 01	84.010	\$230,000	\$221,816
	C1-ST 01		114,000	159,803
	C1-SP 00			22,562
	C1-ST 00			55,071
Total Title I Grants to Local Educational Agencies			344,000	459,252
Special Education - Pre School Grants	PG-S1 00	84.173	55,922	50,702
	PG-SC 99		3,761	3,668
Total Special Education - Pre School Grants			59,683	54,370
Goals 2000 - State and Local Educational Systemic Improvements	G2-A2 00	84.276	12,730	11,897
	G2-S3 00		50,000	19,930
	G2-S9 01		43,750	39,500
Total Goals 2000 - State and Local Educational Systemic Improvements			106,480	71,327
Eisenhower Professional Development State Grant	MS-S1 98	84.281		20,118
Total U. S. Department of Education			510,163	605,067
<u>U.S. OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION</u>				
<i>Passed Through Ohio Department of Criminal Justice</i>				
Juvenile Justice and Delinquency Prevention Allocation to States	98-JJ-1N4-0625	16.540		75
Total U.S. Office of Juvenile Justice and Delinquency Prevention				75
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	7300727	93.778	112,039	112,039
Total U. S. Department of Health and Human Services			112,039	112,039
Total Federal Awards Receipts and Expenditures			<u>\$622,277</u>	<u>\$717,181</u>

The accompanying Notes to this Schedule of Federal Awards Receipts and Expenditures is an integral part of this Schedule.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A - BASIS OF ACCOUNTING

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain federal programs require that the Educational Service Center contribute non-federal funds (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.



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

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To The Board of Education:

We have audited the accompanying general-purpose financial statements of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2001, and have issued our report thereon dated February 22, 2002 wherein we noted the Educational Service Center adopted Governmental Accounting Statements Nos. 33 and 36. We did not audit the financial statements of the Scioto County Joint Vocational School, the Educational Service Center's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts discretely presented for the Scioto County Joint Vocational School is based upon the report of other auditors. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2001-10773-002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Educational Service Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2001-10773-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated February 22, 2002.

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

Jim Petro
Auditor of State

February 22, 2002



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

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

Compliance

We have audited the compliance of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The Educational Service Center's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

As described in item 2001-10733-003 in the accompanying Schedule of Findings, the Educational Service Center did not comply with requirements regarding Reporting that are applicable to Title I Grants to Local Educational Agencies Grants. Compliance with such requirements is necessary, in our opinion, for the Service Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated February 22, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated February 22, 2002.

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

Jim Petro
Auditor of State

February 22, 2002

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grant - CFDA #84.010 Medicaid - CFDA # 93.778
(d)(1)(viii)	Dollar Threshold: Type AIB Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

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

Finding Number 2001-10773-001

Reportable Condition

The budget as it was originally approved by the Board was not properly entered into the Financial Accounting System of the Educational Service Center. Additionally, the approved amendments by the Board prior to June 30, 2001 were not properly entered into the accounting system. This resulted in material misstatement of budget basis throughout the year.

We recommend the Treasurer enter the budget amounts as approved by the Board. These amounts must not only agree in total, but also agree to the detail as presented and approved by the Board. Any and all amendments approved by the Board should be entered into the system.

Finding Number 2001-10773-002

Noncompliance Citation

Ohio Rev. Code § 5705.41(D) states that: No order or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of the appropriate fund free from any previous encumbrances.

The following exception to this basic requirement is provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures of the taxing authority.

For sixty percent of the transactions tested, the certificate of the fiscal officer had not been obtained prior to obtaining goods or services. This resulted in appropriations not being available when purchases were made.

We recommend the Treasurer certify the amount required to meet a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the appropriate fund free from any previous encumbrance prior to incurring obligations. In instances where prior certification is not practical, we recommend issuance of a "then and now" certificate.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Reporting

Finding Number	2001-10773-03
CFDA Title and Number	Title I - CFDA # 84.010
Federal Award Number/Year	C1-ST-00
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

All Title I program funds are required to be reported to the Ohio Department of Education. There are two required reports: Request for Payment and Status of Funds Report and the Final Expenditure Report. The Final Expenditure Report must be completed and submitted to the Ohio Department of Education. The grant agreement requires the Educational Service Center to submit a Final Expenditure report within sixty (60) days from the end of the project period.

The Educational Service Center filed the Final Expenditure report for Project ending September 30, 2000 on March 7, 2001.

We recommend Final Expenditure Reports be filed with the Ohio Department of Education within 60 days of the end of the project period or obtain a written approval for extension for filing from the Ohio Department of Education.

SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10773-001	Budgeted amounts approved by the Board were not entered into the Financial Accounting System.	Not Corrected	See Finding # 2001-10773-001



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SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2002**