



**CLARK COUNTY EDUCATIONAL SERVICE CENTER
CLARK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Clark County Educational Service Center
Clark County
1211 Old Mill Road
Springfield, Ohio 45506

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 1999 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

JIM PETRO
Auditor of State

December 29, 1999

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

| | GOVERNMENTAL FUND TYPES | | FIDUCIARY FUND TYPE | ACCOUNT GROUPS | | TOTAL (MEMORANDUM ONLY) |
|--|-------------------------|--------------------|------------------------|----------------------------|-------------------------------------|-------------------------------|
| | GENERAL | SPECIAL REVENUE | EXPENDABLE TRUST | GENERAL FIXED ASSETS | GENERAL LONG-TERM OBLIGATIONS | |
| Assets and Other Debits | | | | | | |
| Assets: | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$902,115 | \$65,556 | \$1,002 | \$0 | \$0 | \$968,673 |
| Receivables: | | | | | | |
| Accounts | 44,414 | 0 | 0 | 0 | 0 | 44,414 |
| Fixed Assets | 0 | 0 | 0 | 185,230 | 0 | 185,230 |
| Other Debits: | | | | | | |
| Amount to be Provided for Retirement of General Long-Term Obligations | 0 | 0 | 0 | 0 | 121,243 | 121,243 |
| Total Assets and Other Debits | 946,529 | 65,556 | 1,002 | 185,230 | 121,243 | 1,319,560 |
| Liabilities, Fund Equity and Other Credits | | | | | | |
| Liabilities: | | | | | | |
| Accounts Payable | 54,711 | 3,081 | 0 | 0 | 0 | 57,792 |
| Accrued Wages Payable | 256,651 | 10,724 | 0 | 0 | 0 | 267,375 |
| Compensated Absences Payable | 26,902 | 0 | 0 | 0 | 102,081 | 128,983 |
| Intergovernmental Payable | 250,810 | 544 | 0 | 0 | 7,818 | 259,172 |
| Capital Leases Payable | 0 | 0 | 0 | 0 | 11,344 | 11,344 |
| Total Liabilities | 589,074 | 14,349 | 0 | 0 | 121,243 | 724,666 |
| Fund Equity and Other Credits: | | | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 185,230 | 0 | 185,230 |
| Fund Balance: | | | | | | |
| Reserved for Encumbrances | 47,874 | 2,657 | 0 | 0 | 0 | 50,531 |
| Unreserved, Undesignated | 309,581 | 48,550 | 1,002 | 0 | 0 | 359,133 |
| Total Fund Equity and Other Credits | 357,455 | 51,207 | 1,002 | 185,230 | 0 | 594,894 |
| Total Liabilities, Fund Equity and Other Credits | \$946,529 | \$65,556 | \$1,002 | \$185,230 | \$121,243 | \$1,319,560 |

See Accompanying Notes to the General Purpose Financial Statements

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

| | <u>GOVERNMENTAL FUND TYPES</u> | | <u>FIDUCIARY FUND TYPE</u> | <u>TOTAL (MEMORANDUM ONLY)</u> |
|---|--------------------------------|----------------------------|--------------------------------|--|
| | <u>GENERAL</u> | <u>SPECIAL REVENUE</u> | <u>EXPENDABLE TRUST</u> | |
| Revenues: | | | | |
| Intergovernmental | \$2,562,937 | \$416,778 | \$0 | \$2,979,715 |
| Interest | 28,022 | 0 | 0 | 28,022 |
| Charges for Services | 454,195 | 0 | 0 | 454,195 |
| Miscellaneous | 37,965 | 4,000 | 0 | 41,965 |
| Total Revenues | <u>3,083,119</u> | <u>420,778</u> | <u>0</u> | <u>3,503,897</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | 528,276 | 0 | 0 | 528,276 |
| Support Services: | | | | |
| Pupils | 841,323 | 0 | 0 | 841,323 |
| Instructional Staff | 905,920 | 99,813 | 0 | 1,005,733 |
| Board of Education | 15,674 | 0 | 0 | 15,674 |
| Administration | 479,059 | 3,802 | 0 | 482,861 |
| Fiscal | 63,677 | 0 | 0 | 63,677 |
| Business | 60,723 | 0 | 0 | 60,723 |
| Operation and Maintenance of Plant | 26,604 | 0 | 0 | 26,604 |
| Central | 366 | 0 | 0 | 366 |
| Operation of Non-Instructional | | | | |
| Services | 0 | 0 | 0 | 0 |
| Extracurricular Activities | 0 | 0 | 550 | 550 |
| Debt Service: | | | | |
| Principal Retirement | 4,963 | 0 | 0 | 4,963 |
| Interest and Fiscal Charges | 903 | 0 | 0 | 903 |
| Intergovernmental | 0 | 337,094 | 0 | 337,094 |
| Total Expenditures | <u>2,927,488</u> | <u>440,709</u> | <u>550</u> | <u>3,368,747</u> |
| Excess of Revenues Over (Under) Expenditures | <u>155,631</u> | <u>(19,931)</u> | <u>(550)</u> | <u>135,150</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 155,631 | (19,931) | (550) | 135,150 |
| Fund Balances at Beginning of Year | <u>201,824</u> | <u>71,138</u> | <u>1,553</u> | <u>274,515</u> |
| Fund Balances at End of Year | <u>\$357,455</u> | <u>\$51,207</u> | <u>\$1,003</u> | <u>\$409,665</u> |

See Accompanying Notes to the General Purpose Financial Statements

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

| | GENERAL FUND | | | SPECIAL REVENUE FUNDS | | |
|---|-------------------|------------------|--|-----------------------|-----------------|--|
| | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
| Revenues: | | | | | | |
| Intergovernmental | \$2,562,937 | \$2,562,937 | \$0 | \$416,778 | \$416,778 | \$0 |
| Interest | 28,022 | 28,022 | 0 | 0 | 0 | 0 |
| Charges for Services | 444,594 | 444,594 | 0 | 0 | 0 | 0 |
| Miscellaneous | 37,149 | 37,149 | 0 | 4,000 | 4,000 | 0 |
| Total Revenues | <u>3,072,702</u> | <u>3,072,702</u> | <u>0</u> | <u>420,778</u> | <u>420,778</u> | <u>0</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Special | 549,137 | 537,381 | 11,756 | 2,323 | 2,308 | 15 |
| Support Services: | | | | | | |
| Pupils | 908,026 | 882,182 | 25,844 | 0 | 0 | 0 |
| Instructional Staff | 1,167,448 | 955,329 | 212,119 | 294,293 | 234,519 | 59,774 |
| Board of Education | 21,267 | 16,590 | 4,677 | 0 | 0 | 0 |
| Administration | 499,809 | 466,296 | 33,513 | 5,357 | 3,802 | 1,555 |
| Fiscal | 64,672 | 62,395 | 2,277 | 0 | 0 | 0 |
| Business | 68,962 | 65,739 | 3,223 | 0 | 0 | 0 |
| Operation and Maintenance of Plant | 28,925 | 26,867 | 2,058 | 0 | 0 | 0 |
| Central | 1,000 | 366 | 634 | 0 | 0 | 0 |
| Operation of Non-Instructional | | | | | | |
| Services | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0 |
| Non-Instructional Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Intergovernmental | 0 | 0 | 0 | 214,637 | 214,637 | 0 |
| Extracurricular Activities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenditures | <u>3,309,246</u> | <u>3,013,145</u> | <u>296,101</u> | <u>516,610</u> | <u>455,266</u> | <u>61,344</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(236,544)</u> | <u>59,557</u> | <u>296,101</u> | <u>(95,832)</u> | <u>(34,488)</u> | <u>61,344</u> |
| Other Financing Sources (Uses): | | | | | | |
| Refund of Prior Year Expenditures | 816 | 816 | 0 | 0 | 0 | 0 |
| Other Financing Uses | 50,000 | 0 | 50,000 | 0 | 0 | 0 |
| Proceeds of Notes | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Financing Sources (Uses) | <u>(49,184)</u> | <u>816</u> | <u>50,000</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>(285,728)</u> | <u>60,373</u> | <u>346,101</u> | <u>(95,832)</u> | <u>(34,488)</u> | <u>61,344</u> |
| Fund Balances at Beginning of Year | 636,749 | 636,749 | 0 | 71,852 | 71,852 | 0 |
| | 102,942 | 102,942 | 0 | 22,587 | 22,587 | 0 |
| Fund Balances at End of Year | <u>\$453,963</u> | <u>\$800,064</u> | <u>\$346,101</u> | <u>(\$1,393)</u> | <u>\$59,951</u> | <u>\$61,344</u> |

See Accompanying Notes to the General Purpose Financial Statements

(Continued)

| EXPENDABLE TRUST FUND | | | TOTAL (MEMORANDUM ONLY) | | |
|-----------------------|---------|--|----------------------------|-------------|--|
| REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) | REVISED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
| \$0 | \$0 | \$0 | \$2,979,715 | \$2,979,715 | \$0 |
| 0 | 0 | 0 | 28,022 | 28,022 | 0 |
| 0 | 0 | 0 | 444,594 | 444,594 | 0 |
| 0 | 0 | 0 | 41,149 | 41,149 | 0 |
| 0 | 0 | 0 | 3,493,480 | 3,493,480 | 0 |
| 0 | 0 | 0 | 551,460 | 539,689 | 11,771 |
| 0 | 0 | 0 | 908,026 | 882,182 | 25,844 |
| 0 | 0 | 0 | 1,461,741 | 1,189,848 | 271,893 |
| 0 | 0 | 0 | 21,267 | 16,590 | 4,677 |
| 0 | 0 | 0 | 505,166 | 470,098 | 35,068 |
| 0 | 0 | 0 | 64,672 | 62,395 | 2,277 |
| 0 | 0 | 0 | 68,962 | 65,739 | 3,223 |
| 0 | 0 | 0 | 28,925 | 26,867 | 2,058 |
| 0 | 0 | 0 | 1,000 | 366 | 634 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 214,637 | 214,637 | 0 |
| 1,553 | 550 | 1,003 | 1,553 | 550 | 1,003 |
| 1,553 | 550 | 1,003 | 3,827,409 | 3,468,961 | 358,448 |
| (1,553) | (550) | 1,003 | (333,929) | 24,519 | 358,448 |
| 0 | 0 | 0 | 816 | 816 | 0 |
| 0 | 0 | 0 | (50,000) | 0 | (50,000) |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | (49,184) | 816 | 50,000 |
| (1,553) | (550) | 1,003 | (383,113) | 25,335 | 408,448 |
| 1,553 | 1,553 | 0 | 710,154 | 710,154 | 0 |
| 0 | 0 | 0 | 125,529 | 125,529 | 0 |
| \$0 | \$1,003 | \$1,003 | \$452,570 | \$861,018 | \$408,448 |

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

1. REPORTING ENTITY AND DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Clark County Educational Service Center is located in Springfield, Ohio, the county seat. The Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services by state and federal agencies. The Board controls the District's 27 support staff employees and 47 certificated employees who provide services to the staff and students of the six local school districts.

The Clark County Educational Service Center was established in 1914 in response to recommendations from the Ohio State School Survey Commission. Senate Bill 9, passed on February 4, 1914, provided the standardization of schools and established the county educational service center.

Since 1914, county superintendents have been involved in various areas of administration and perform many services, which include, but are not limited to the following: cooperative programs, supervision, liaison between local school districts and the Department of Education, health insurance programs, and special education services. Many of those services have been initiated by the county office of education without being legislatively mandated.

The Clark County Educational Service Center consists of five elected board members, a superintendent, a treasurer and employees. The Clark County Educational Service Center is a chartered school district and was chartered on July 21, 1989, by the State Board of Education.

The Clark County Educational Service Center serves six local districts: Mad River-Green Local, Northeastern Local, Northwestern Local, Southeastern Local, Clark-Shawnee Local and Tecumseh Local. It also works with the Springfield/Clark County JVS in the areas of inservice of administrators. Springfield City Schools and the Clark County Educational Service Center have entered into a city/county agreement to provide services in designated areas.

Under S. B. 140, county educational service centers are required to appoint business advisory councils. The Clark County Educational Service Center has appointed a Business Advisory Council which is strictly voluntary on the part of the members. There is no financial responsibility of the Clark County Educational Service Center for this council.

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

Component units are legally separate organizations for which the Center is financially accountable. The Educational Service Center is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) it is able to significantly influence the programs or services performed or provided by the organization; or (2) it is legally entitled to or can otherwise access the organizations' recourse; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organizations; 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 for the organization.

The Clark County Educational Service Center does not have component units.

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

**1. REPORTING ENTITY AND DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER
(Continued)**

The Educational Service Center is associated with four organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations include the Miami Valley Educational Computer Association (MVECA), the Southwestern Ohio Educational Purchasing Council (SWOEP), the Clark County Family and Children First Council (Council), Springfield/Clark County Joint Vocational School and the Southwestern Ohio Educational Purchasing Council Worker's Compensation Group Rating Pool.

Information about these organizations are presented in Notes 15 and 16 to the general-purpose financial statements.

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. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation-Fund Accounting

The Educational Service Center uses funds and account groups to report 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 expendable available resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories 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 that are legally restricted to expenditure for specified purposes.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation-Fund Accounting (Continued)

Fiduciary Fund Types

Fiduciary Fund - 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 fiduciary fund is an expendable trust fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

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 fund and those of a general nature, the following account groups are used:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the 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 to cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled into two bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Under existing Ohio statutes, all investment earnings accrue to the General Fund.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

Following Ohio statute, the Governing Board has, by resolution, specified the funds to receive and allocation of interest earnings for Clark County Educational Service Center. All interest revenue was credited to the General Fund during fiscal year 1999. The amount credited to the General Fund was \$28,022, which includes \$7,249 assigned from other funds.

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

E. 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 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 possess 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.

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

F. Intergovernmental Revenues

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

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

- Entitlements
 - General Fund
 - Community Alternative Funding System Program
- Non-Reimbursable Grants
 - Special Revenue Funds
 - Martha Holden Jennings Foundation
 - TOPS
 - Parent Mentor
 - EMIS
 - Eisenhower
 - Preschool
 - Drug Free Schools
 - Educational Systems
 - JTPA

Grants and entitlements amounted to 85 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Continued)

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as intergovernmental revenues and reclassified as intergovernmental expenditures in the special revenue fund.

G. Compensated Absences

Vacation leave 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 methods. 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 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 all employees after five years of current service with the Educational Service Center. 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 absence 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 for the funds regardless of whether they will be liquidated with current resources. Capital leases are reported as a liability of the general long-term obligation account group until due.

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 nonroutine 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 spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Estimates

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

L. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, 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.

3. ACCOUNTABILITY

At June 30, 1999, the Preschool Fund has a deficit fund balance of \$4,440, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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 State of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Similar Fiduciary Fund 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.

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

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarized 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 and Expendable Trust Fund | | | |
|--|------------------|------------------------|-------------------------|
| | General | Special Revenue | Expendable Trust |
| GAAP Basis | \$155,631 | (\$19,931) | (\$550) |
| Revenue Accruals | (9,601) | 0 | 0 |
| Expenditure Accruals | 16,394 | (8,952) | 0 |
| Encumbrances | <u>(102,051)</u> | <u>(5,605)</u> | <u>0</u> |
| Budget Basis | \$ 60,373 | (\$34,488) | (\$550) |

5. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the 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 or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the Educational Service Center's deposits is provided by Federal Deposit Insurance Corporation, 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 institute to secure the repayment of all public monies deposited with the institution.

Board policy permits interim monies to be deposited or invested in the following securities:

1. United State 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 corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

5. DEPOSITS AND INVESTMENTS (Continued)

3. Bonds and other obligations of the State of Ohio;
4. No-load market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
5. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of tax-exempt 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 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 3, "Deposits With Financial Institution, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$549,840 and the bank balance was \$832,930. Of the bank balance, \$200,000 was covered by federal depository insurance and \$632,930 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the 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. At June 30, 1999, the Educational Service Center had investments with STAR Ohio. This is an unclassified investment, with a carrying value and a market value of \$418,833.

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. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|------------------|---|--------------------|
| GASB Statement 9 | \$968,673 | \$ 0 |
| STAR Ohio | <u>(418,833)</u> | <u>418,833</u> |
| GASB Statement 3 | <u>\$549,840</u> | <u>\$418,833</u> |

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

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 by State resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all the school district's served by the Educational Service Center by \$34.00. This amount is provided from State Resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Board of Education of the schools served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment. The local school districts under the Clark County Educational Service Center pay an additional \$4.50 per student.

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,576,391.34 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws to determine whether they are constitutional under the "thorough and efficient" clause of the Ohio Constitution. According to the Ohio attorney general's office, a decision is expected from the Perry County Court sometime in early calendar 1999; either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

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

7. RECEIVABLES

Receivables at June 30, 1999, consisted of special education excess costs. All receivables are considered collectible in full.

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

8. FIXED ASSETS

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

| | Balance at June 30, 1998 | Additions | Deletions | Balance at June 30, 1999 |
|-----------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Furniture & Equipment | \$139,032 | \$41,004 | \$16,786 | \$163,250 |
| Vehicles | <u>9,213</u> | <u>21,980</u> | <u>9,213</u> | <u>21,980</u> |
| Totals | <u>\$148,245</u> | <u>\$62,984</u> | <u>\$25,999</u> | <u>\$185,230</u> |

9. RISK MANAGEMENT

The Educational Service Center is exposed to various risk of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal year 1999, the Educational Service Center contracted with Nationwide Insurance Company for general liability insurance with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate. Property is protected by Consolidated Insurance and holds a \$100 deductible.

The Educational Service Center's vehicles are covered under a business policy with Nationwide Insurance Company and holds a \$100 deductible and a \$500,000 limit on any accident.

For the fiscal year 1999, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Worker's Compensation Group Rating Pool (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant that can meet the GRP's selection criteria. The firm of CompManagement provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 9% of their annual covered salary and the Clark County Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Clark County Educational Service Center contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The Clark County Educational Service Center contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$61,059, \$53,339, and \$42,261, respectively. One hundred percent has been contributed for all three years. \$7,818 representing the unpaid surcharge contribution for fiscal year 1999, is recorded as a liability within the general long-term obligations account group.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Clark County Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$231,658, \$246,330 and \$228,284. Zero percent has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal years 1998 and 1997. \$231,658 represents the unpaid contribution for fiscal year 1999, and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, four members of the Governing Board have elected social security and one elected SERS. The Board's liability is 6.2 percent of wages paid for social security and 14% for SERS.

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

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, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$131,766 for fiscal year 1999.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay was established at \$12,400. For the Clark County Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$22,966.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

The criteria for determining vacation, personal, and sick leave are derived from board policy and State laws. All twelve month certified employees earn twenty days of vacation per fiscal year; eleven month certified employees earn fifteen days of vacation per fiscal year and ten month certified employees earn ten days of vacation per fiscal year. Teachers do not earn vacation time.

Support staff employees earn ten days of vacation after one year of service; after eight years of service they earn fifteen days of vacation; with fifteen years of service they earn twenty days of vacation and after twenty-five years of service they earn twenty-five days of vacation.

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

12. EMPLOYEE BENEFITS (Continued)

Accumulated, unused vacation must be used by October of the fiscal year following which it is earned.

All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract in which it is earned.

All 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 250 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

13. CAPITALIZED LEASES-LESSEE DISCLOSURE

In prior years, the Clark County Educational Service Center has entered into capitalized leases for the acquisition of reproduction equipment. The terms of the agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as program/function expenditures on a budgetary basis. General Fixed Assets acquired by lease have been capitalized in the general fixed assets account group in the amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligation account group. Principal payment in the fiscal year 1999 totaled \$4, 963.

The following is a schedule for the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999.

| | Fiscal Year Ending June 30 | General Long-Term Obligation |
|--|---------------------------------------|---|
| Total Minimum Lease Payments | 2000 | \$ 5,866 |
| | 2001 | 5,866 |
| | 2002 | <u>489</u> |
| | | \$12,221 |
| Less: Amount Representing Interest | | <u>(877)</u> |
| Present Value of Minimum Lease Payment | | <u>\$11,344</u> |

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

14. LONG-TERM OBLIGATIONS

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

| | Amount Outstanding 6/30/98 | Additions | Deductions | Amount Outstanding 6/30/99 |
|---------------------------------------|---|------------------|-------------------|---|
| Capital Leases | \$ 16,307 | \$ 0 | \$ 4,963 | \$ 11,344 |
| Intergovernmental Payables | 10,047 | 7,818 | 10,047 | 7,818 |
| Compensated Absences | <u>103,168</u> | <u>0</u> | <u>1,087</u> | <u>102,081</u> |
| Total General Long-Term Obligation | <u>\$129,522</u> | <u>\$7,818</u> | <u>\$16,097</u> | <u>\$121,243</u> |

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Compensated absences and intergovernmental payable will be paid from the fund from which the employees' salaries are paid. Capital lease obligations will be paid from the general fund.

15. INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

16. JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association - The Educational Service Center is a participant in the MVECA which is a computer consortium data acquisition site used by the Service Center. MVECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. 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. Complete financial statements can be obtained from MVECA located in Yellow Springs, Ohio.

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

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Southwestern Ohio Educational Purchasing Council - SWOEPC is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the Fiscal Agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SWOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SWOEPC shall forfeit its claim to any and all SWOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during this one year period. Payments to SWOEPC are made from the General Fund. The Center contributed \$953 for the operation of the consortium during the 1999 fiscal year. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Clark County Family and Children First Council - The Clark County Family and Children First Council (the Council) is a voluntary association established for the purpose to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Clark County Educational Service Center, who was appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Educational Service Center did not pay any dues during fiscal year 1999. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 6 West High Street, Suite 500, Springfield, Ohio 45502.

Springfield/Clark County Joint Vocational School - The Springfield/Clark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Mad River-Green Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. One member is appointed from the Springfield City School District. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Mary Beth Kemmer, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

17. CONTINGENCIES

A. Grants

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

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

17. CONTINGENCIES (Continued)

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

18. YEAR 2000 COMPLIANCE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations.

The Clark County Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the District in the form of "Foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Educational Service Center is or will be Year 2000 ready, that the Center's remediation efforts will be successful in whole or in part, or that parties with whom the Center does business will be year 2000 ready.

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

Clark County Educational Service Center
Clark County
1211 Old Mill Road
Springfield, Ohio 45506

To The Board of Education:

We have audited the financial statements of Clark County Educational Service Center, Clark County (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon December 29, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

JIM PETRO
Auditor of State

December 29, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

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CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2000**