



**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Group	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types – For the Year Ended June 30, 1999	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget - Actual (Budgetary Basis) All Governmental Fund Types - For the Year Ended June 30, 1999	6
Notes to the General Purpose Financial Statements	9
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23

This page intentionally left blank.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503

Telephone 330-797-9900
800-443-9271

Facsimile 330-797-9949

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Carroll-Harrison Educational Service Center, Carroll 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.

As more fully described in Note 3A to the general-purpose financial statements, certain changes in accounting policies and financial reporting practices were made in order to present the aforementioned general-purpose financial statements in conformity with generally accepted accounting principles. Such changes were adopted effective July 1, 1998, and to implement those changes, adjustments were made to restate fund balances as of that date.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Carroll-Harrison Educational Service Center, Carroll County, 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 18, 2000 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 18, 2000

This page intentionally left blank.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

	Governmental Fund Types		Account Group	Totals
	General	Special Revenue	General Long-Term Obligations	(Memorandum Only)
ASSETS AND OTHER DEBITS				
Assets:				
Cash, Cash Equivalents, and Investments	\$ 148,597	\$ 4,860		\$ 153,457
Receivable (Net Allowances for Uncollectables)				
Due from other Government	22,051			22,051
Other Debits:				
Amount to be Provided for Retirement of General Long-Term Obligations			\$9,149	9,149
Total Assets and Other Debits	<u>\$ 170,648</u>	<u>\$ 4,860</u>	<u>\$ 9,149</u>	<u>\$ 184,657</u>
Liabilities, Equity and Other Credits				
Liabilities:				
Accounts Payable	1,954			1,954
Accrued Wages & Benefits	15,472			15,472
Compensated Absences Payable	5,505		9,149	14,654
Due to Other Governments	1,425			1,425
Total Liabilities	<u>24,356</u>		<u>9,149</u>	<u>33,505</u>
Equity and Other Credits:				
Reserved for Encumbrances	3,835			3,835
Unreserved - Undesignated	142,457	4,860		147,317
Total Equity and Other Credits	<u>146,292</u>	<u>4,860</u>		<u>151,152</u>
Total Liabilities, Equity and Other Credits	<u>\$ 170,648</u>	<u>\$ 4,860</u>	<u>\$ 9,149</u>	<u>\$ 184,657</u>

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

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum) Only</u>
Revenues:			
Earnings on Investments	\$ 3,531		3,531
Intergovernmental	231,557	\$77,218	308,775
Other Revenue	<u>80,007</u>		<u>80,007</u>
Total Revenue	<u>315,095</u>	<u>77,218</u>	<u>392,313</u>
Expenitures:			
Current:			
Instruction:			
Regular Instruction	3,216		3,216
Support Services:			
Pupils	56,834	54,076	110,910
Instructional Staff	116,225	12,764	128,989
Board of Education	21,274		21,274
School Administration	4,521	9,556	14,077
Fiscal	9,323	1,436	10,759
Pupil Transportation	<u>1,277</u>		<u>1,277</u>
Total Expenditures	<u>\$ 212,670</u>	<u>\$ 77,832</u>	<u>\$ 290,502</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ 102,425</u>	<u>\$ (614)</u>	<u>\$ 101,811</u>
Other Financing Sources/(Uses)			
Refund of Prior Year Receipts	(89,915)		(89,915)
Refund of Prior Year Expenditures	<u>22,078</u>		<u>22,078</u>
Total Other Financing Sources/(Uses)	<u>(67,837)</u>		<u>(67,837)</u>
Excess(Deficit) of Revenues and Other Sources Over/ (Uner) Expenditures and Other Uses	<u>34,588</u>	<u>(614)</u>	<u>33,974</u>
Fund Balances - July 1, 1998	<u>111,704</u>	<u>5,474</u>	<u>117,178</u>
Fund Balances - June 30, 1999	<u>\$ 146,292</u>	<u>\$ 4,860</u>	<u>\$ 151,152</u>

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

This page intentionally left blank.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

	General Fund		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
Earnings on Investments	\$ 1,400	\$ 3,531	\$ 2,131
Intergovernmental	135,954	231,557	95,603
Other Revenue	125,000	80,007	(44,993)
Total Revenues	<u>262,354</u>	<u>315,095</u>	<u>52,741</u>
Expenditures:			
Current:			
Regular Instruction	5,000	3,216	1,784
Support Services:			
Pupils	88,450	50,716	37,734
Instructional Staff	141,850	127,135	14,715
Board of Education	23,850	20,065	3,785
School Administration	13,900	4,521	9,379
Fiscal	19,550	9,389	10,161
Operations & Maintenance	5,000		5,000
Pupil Transportation	2,500	1,277	1,223
Total Expenditures	<u>\$ 300,100</u>	<u>\$ 216,319</u>	<u>\$ 83,781</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ (37,746)</u>	<u>\$ 98,776</u>	<u>\$ 136,522</u>
Other Financing Sources/(Uses)			
Refund of Prior Year Expenditures		2,503	2,503
Refund of Prior Year Receipts		(89,915)	(89,915)
Operating Transfers Out			
Total Other Financing Sources/(Uses)		<u>(87,412)</u>	<u>(87,412)</u>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(37,746)	11,364	49,110
Fund Balances - July 1, 1998	<u>133,399</u>	<u>133,399</u>	
Fund Balances - June 30, 1999	<u>\$ 95,653</u>	<u>\$ 144,763</u>	<u>\$ 49,110</u>

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

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
\$6,000	\$77,218	\$71,218	\$ 1,400	\$ 3,531	\$ 2,131
			141,954	308,775	166,821
			125,000	80,007	(44,993)
6,000	77,218	71,218	268,354	392,313	123,959
			5,000	3,216	1,784
29,225	54,076	(24,851)	117,675	104,792	12,883
12,763	12,763		154,613	139,898	14,715
			23,850	20,065	3,785
15,852	9,556	6,296	29,752	14,077	15,675
3,000	1,436	1,564	22,550	10,825	11,725
			5,000		5,000
			2,500	1,277	1,223
\$ 60,840	\$ 77,831	\$ (16,991)	\$ 360,940	\$ 294,150	\$ 66,790
\$ (54,840)	\$ (613)	\$ 54,227	\$ (92,586)	\$ 98,163	\$ 190,749
(24,850)		24,850	(24,850)	2,503 (89,915)	2,503 (89,915)
(24,850)		24,850	(24,850)	(87,412)	24,850 (62,562)
(79,690)	(613)	79,077	(117,436)	10,751	128,187
5,473	5,473		138,872	138,872	
\$ (74,217)	\$ 4,860	\$ 79,077	\$ 21,436	\$ 149,623	\$ 128,187

This page intentionally left blank.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND THE REPORTING ENTITY

The Carroll Harrison Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected five-member Governing Board and provides no direct educational services to students. The Center is responsible for providing services and assisting school districts in Carroll and Harrison Counties.

The Center employs 6 certificated employees and 2 non-certificated employees. The Carroll Harrison Educational Service Center offers its services to the Brown Local School District and the Conotton Valley Local School District.

The Reporting Entity

The Center's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements of the Center are not misleading. A primary government consists of all funds, agencies, departments and offices that are not legally separate from the Center. For the Center, these include general operations and service related activities.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. The Center does not have any component units.

Management believes the general purpose financial statements includes all the funds of the Center over which the Center has the ability to exercise direct operating control.

The Center is associated with two organizations, which are defined as a jointly governed organization and an insurance purchasing pool. These organizations include the Stark/Portage Area Computer Consortium (SPARCC) and the Ohio School Boards Association Worker's Compensation Group Rating Plan. These organizations are described as follows:

Jointly Governed Organization

The Center is a member of the Stark-Portage Area Computer Consortium (SPARCC), a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage counties. Each participant's superintendent serves as a representative on the Board which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five member executive Board which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND THE REPORTING ENTITY (Continued)

Public Entity Risk Pool

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Center's significant accounting policies are described below.

A. Fund Accounting

The accounts of the Center are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Center has the following fund types and account groups:

1. Governmental Fund Types:

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

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Account Group:

To make a clear distinction between long-term liabilities related to specific funds and those of a general nature, the Center maintains one account group as described below:

General Long-Term Obligations Account Group

The general long-term obligations account group is used to account for all unmatured long-term obligations of the Center.

B. Measurement Focus and Basis of Accounting

Measurement Focus

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 (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of Accounting

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 Center is sixty days after fiscal year end. Revenues accrued at year end include interest, grants and entitlements.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

C. Budgetary Process

A County Educational Service Center (the Center) is required by State Statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations for the ensuing year for the Center are prepared on forms furnished by the State Board of Education which certify the budget to the State, together with such other information as the State Board of Education may require. Said budget shall consist of two parts: Part (A) shall include the cost of the salaries, employers retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) shall include the cost of all other lawful expenditures of the Center. The State Board of Education shall review such budget and may approve, increase, or decrease such budget. A portion of the Center's operating expenses are apportioned among the various districts in the county on the basis of the total number of pupils in each district and deducted from funds allocated to local districts under the school foundation program. The annual appropriation resolution is legally enacted by the Center at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
2. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the State Board of Education.
3. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
4. Appropriation amounts are as originally adopted, or as amended by the Center through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Center during fiscal 1999, however, none of these amendments were significant.
5. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with Board funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund Types, encumbrances outstanding at year end, not recognized as accounts payable, appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 12 provides a reconciliation of the budgetary and GAAP basis of accounting.

D. Cash, Cash Equivalents, and Investments

For reporting purposes, the Center considers "Cash, Cash Equivalents and Investments" to be cash on hand, demand deposits, and all short-term investments (maturity date less than 90 days from the date of purchase) and "Investments" to be instruments with a maturity date of more than 90 days from the date of purchase. Cash received by the Center is deposited in a central bank account with individual fund balance integrity maintained. Monies for all funds are maintained in this account or temporarily used to purchase short-term cash equivalent investments. State statutes authorize the Center to invest in obligations of U.S. Treasury, commercial paper and repurchase agreements. During fiscal year 1999, the Center had no investments.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under existing Ohio Statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund.

E. 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 Center currently participates in various state and federal programs categorized as follows:

Entitlements

 General Fund
 State Foundation Program

Nonreimbursable Grants

 Special Revenue Funds
 Management Information Systems Fund

Grants and entitlements amounted to 79% of the Center's operating revenue during fiscal year 1999.

F. 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 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 Center has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy.

For governmental funds, the Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Center records a liability for accumulated unused sick leave for both classified and certified employees once they meet the eligibility requirements for retirement from one of the State retirement systems. 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 are paid. The remainder is reported in the General Long-Term Obligations Account Group.

G. 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, claims and judgments, compensated absences, contractually required pension contributions, and special

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

termination benefits 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. Compensated absences are reported as a liability of the General Long-Term Obligations Account Group until due.

H. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

I. Fund Balance Reserves

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

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

3. ACCOUNTABILITY

Change in Accounting Principle

For the year ended June 30, 1999, the Center has presented for the first time general-purpose financial statements by fund type and accounting group in accordance with Generally Accepted Accounting Principles. In conjunction with this presentation, the Center has converted its governmental funds to the modified accrual basis of accounting. The conversion required that an adjustment to the July 1, 1998 general fund balance as previously reported to reflect the prior years' effect of adopting these new accounting principles. The restatement to the opening fund balance is as follows.

	Balance as Previously Stated June 30, 1998	Adjustments	Restated Balance at July 1, 1998
General Fund	\$ 133,399	\$ (21,695)	\$ 111,704

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Center into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Center'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 Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be invested in the following obligations:

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations determined in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities determined in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio); and
7. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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 No. 3, Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.

Deposits: At year end, the carrying amount of the Center's deposits was \$153,457 and the bank balance was \$191,211. Of the bank balance, \$100,000 was covered by federal depository insurance and \$91,211 was covered by pooled collateral. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

5. LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 1999 and the related transactions for the year are summarized as follows:

	Balance 7/1/98	Additions	Reductions	Balance 6/30/99
Compensated Absences Payable	\$	\$ 9,149	\$	\$ 9,149

6. 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 the 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 and administrators earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 299 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 70 days for classified employees.

7. RISK MANAGEMENT

A. Comprehensive

The Center 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 1999, the Center contracted with a private carrier for liability insurance. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The worker's 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 will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute 14 percent; for fiscal year 1999, 10.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999 and 1998 were \$314 and \$422 respectively. 100% has been contributed for both fiscal years 1999 and 1998.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1998, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999 and 1998 were \$21,215 and \$16,340 respectively. 100% has been contributed for both fiscal years 1999 and 1998.

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. The Center's liability is 6.2 percent of wages paid under the Social Security System.

9. POST EMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization; physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

9. POST EMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund from which health care benefits are paid. However, for the fiscal year ended June 30, 1999, the board allocated employer contributions equal to 8 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$2.783 billion on June 30, 1999. The Health Care Reserve Fund allocation for the year ended June 30, 2000 will be 8 percent of covered payroll.

For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000. There were 95,796 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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 the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 1999, the allocation rate is 6.30 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999 were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, the Retirement's System's net assets available for payment of health care benefits were \$188.0 million. The number of participants currently receiving health care benefits is approximately 51,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .450, then adding the surcharge dues as of June 30, 1999, as certified to your Center by SERS.

10. CONTINGENCIES

Grants

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

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

11. RECEIVABLES

Receivables at June 30, 1999 consisted primarily of billed services that are provided to another school district. All receivables are considered collectible in full. A summary of the principle items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
General Fund:	
Due from other Governments	\$22,051

12. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

**Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses**

	General	Special Revenue
Budget Basis	\$11,364	\$ (614)
Adjustments for Revenue Accruals	-	-
Adjustments for Expenditure Accruals	19,389	-
Adjustments for Encumbrances	<u>3,835</u>	<u>-</u>
GAAP Basis	<u>\$34,588</u>	<u>\$ (614)</u>

**CARROLL HARRISON EDUCATIONAL SERVICE CENTER
CARROLL COUNTY**

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

13. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$286,932 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

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

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

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503

Telephone 330-797-9900
800-443-9271

Facsimile 330-797-9949

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

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

To the Board of Education:

We have audited the general-purpose financial statements of the Carroll Harrison Educational Service Center (the Center), Carroll County, Ohio, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carroll-Harrison Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated December 18, 2000.

Internal Control Over Financial Reporting

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

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

Jim Petro
Auditor of State

December 18, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

CARROLL HARRISON EDUCATIONAL SERVICE CENTER

CARROLL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 13, 2001**