PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Perry-Hocking Educational Service Center
Perry County
1605 Airport Road
New Lexington, Ohio 43764

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

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

Ohio Administrative Code Section 117-2-01 (B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the Center prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Perry-Hocking Educational Service Center, Perry County as of June 30, 1999, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2001, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit for the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

JIM PETRO
Auditor of State

January 30, 2001

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Governmental Fund Types		(Memorandum Only)
	General	Special Revenue	Total
Receipts from Local Sources			
Tuition	$0	$58,988	$58,988
Earnings on Investments	45,995	0	45,995
Miscellaneous	391,249	12,451	403,700
Receipts from State Sources			
Unrestricted Grants in Aid	1,798,284	0	1,798,284
Restricted Grants in Aid	0	357,037	357,037
Receipts from Federal Sources			
Restricted Grants in Aid	101,943	180,977	282,920
Total Receipts	2,337,471	609,453	2,946,924
Disbursements			
Instruction			
Regular	3,804	214,961	218,765
Special	912,329	5,283	917,612
Adult/Continuing	0	32,353	32,353
Support Services			
Pupils	172,522	78,771	251,293
Instructional Staff	97,548	144,659	242,207
Board of Education	289,056	0	289,056
Administration	548,665	61,572	610,237
Fiscal Services	21,823	19,525	41,348
Business	0	300	300
Operation and Maintenance-Plant	16,878	31,295	48,173
Pupil Transportation	775	961	1,736
Central	78,636	57,561	136,197
Extracurricular Activities			
Academic & Subject Oriented Activities	0	3,354	3,354
Facilities Acquisition and Construction Services			
Building Acquisition and Construction	26,861	0	26,861
Total Disbursements	2,168,897	650,595	2,819,492
Excess of Receipts Over/(Under) Disbursements	168,574	(41,142)	127,432
Beginning Fund Balance	708,063	280,212	988,275
Ending Fund Balance	$876,637	$239,070	$1,115,707

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Fund Types/Funds	Budget	Actual	Variance Favorable (Unfavorable)
Governmental			
General	$2,250,000	$2,337,471	$87,471
Special Revenue	606,434	609,453	3,019
Total (Memorandum Only)	$2,856,434	$2,946,924	$90,490

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Fund Types/Funds	Prior Year Carryover Appropriations	Fiscal Year Appropriations	Total	Fiscal Year Disbursements	Encumbrances Outstanding At 06/30/99	Total	Variance Favorable (Unfavorable)
Governmental							
General	$16,139	$2,924,985	$2,941,124	$2,168,897	$69,903	$2,238,800	$702,324
Special Revenue	8,861	863,660	872,521	650,595	4,271	654,866	217,655
Total (Memorandum Only)	$25,000	$3,788,645	$3,813,645	$2,819,492	$74,174	$2,893,666	$919,979

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Perry-Hocking 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 defined by Ohio Revised Code § 3311.05, and is located in New Lexington, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to New Lexington City School District; Crooksville Exempted Village School District; and Northern, Southern, and Logan-Hocking Local School Districts. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

As of July 1, 1997, the Perry County Educational Service Center merged with the Hocking County Educational Service Center to become the Perry-Hocking Educational Service Center.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code Section 117-2-01(B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Center chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

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

C. CASH AND INVESTMENTS

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The investment in STAROhio is valued at amounts reported by the State Treasurer.

D. FUND ACCOUNTING

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (Continued)

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

To account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

E. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

Appropriations:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETARY PROCESS (Continued)

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

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

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.

F. PROPERTY, PLANT AND EQUIPMENT

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. ACCUMULATED UNPAID VACATION LEAVE AND SICK LEAVE

Accumulated unpaid vacation leave, sick leave, and personal leave are not accrued under the cash basis of accounting described in Note 1. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 1999.

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. CASH AND CASH EQUIVALENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

2. CASH AND CASH EQUIVALENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

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

Deposits: At fiscal year end, the carrying amount of the Center's deposits was $661,424 and the bank balance was $729,195. Of the bank balance:

1. $100,000 was covered by federal depository insurance; and,

2. $629,195 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Investments: The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at the end of the year. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Center's name. The Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified investments since it is not evidenced by securities that exist in physical or book entry form. The carrying value of STAROhio of $454,283 approximates market value.

3. RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year ending June 30, 1999, the Center contracted with various insurance companies for property and general liability insurance.

3. RISK MANAGEMENT (Continued)

Professional and general liability is protected by the Nationwide Insurance Company with a $1,000,000 single occurrence limit with $3,000,000 aggregate and no deductible. Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

The Center pays the State Workers' Compensation System a premium based on a rate per $100 salaries. This rate is calculated based on accident history and administrative costs.

The Center provides a comprehensive health insurance plan with Anthem (Blue Cross/Blue Shield Association) for all eligible employees. The Center pays 98% of the single premium and 90% of the family premium. The monthly premium for this coverage is $537.02 for family and $193.67 for individual. This insurance provides prescription drug insurance which utilizes a $5 per prescription deductible.

Dental coverage is provided through CoreSource. The Educational Service Center pays 85% of the premium for all employees. Monthly premiums for this coverage are $35.11 for family and/or single coverage.

Life insurance for certified employees is provided through CoreSource. The Center pays 100% of the premium. The monthly premium for this coverage is $3.50 per month for $20,000 of coverage.

4. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by $36. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the 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 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.

5. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System of Ohio

The Center participates in 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. 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997, were $289,123, $270,718 and $141,939, respectively.

B. School Employees Retirement System of Ohio

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 9.79 percent was the portion 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 the SERS Retirement Board. The Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997, were $125,700, $67,380, and $59,211, respectively.

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. As of June 30, 1999, one member of the Board of Education has elected social security. The Center's liability is 6.2 percent of wages paid.

6. POST-EMPLOYMENT BENEFITS

The 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1998, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1998, this allocation was increased to 3.5 percent. For the District, this amount equaled $289,123 during fiscal 1999.

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

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

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, were $111,900,575 and the target level was $139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of $160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled $125,700 during the 1999 fiscal year.

7. JOINTLY GOVERNED ORGANIZATIONS

The Southeast Ohio Voluntary Education Cooperative - SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC has 33 participants consisting of 24 school districts and 9 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The Center does not have an ongoing financial interest in or ongoing financial responsibility for SEOVEC. SEOVEC provides computer services to the Center. To obtain financial information write to the Southeast Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

7. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Central Ohio Special Education Regional Resource Center - The Central Ohio Special Education Regional Resource Center (COSSERC) is a not-for-profit Council of Governments of various school districts in Central Ohio. The Center participates in services that assist the Center in complying with Mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the Center. COSSERC is not dependent upon the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for COSSERC.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various inservice for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for the Council. The Center's membership fee was $300 for fiscal year 1999.

Ohio Coalition for Equity and Adequacy of School Funding - The Coalition is a jointly governed organization including over 500 school districts in Ohio. The Coalition is operated by a Steering Committee comprised of Superintendents and other education agency representatives. The Coalition exists to provide for equity and adequacy of funding for public schools in the State of Ohio. The Coalition is not dependent on the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for the Coalition. The Center's membership fee was $300 for fiscal year 1999.

8. INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - 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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

9. CONTINGENCIES

A. Grants

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

9. CONTINGENCIES (Continued)

B. Litigation

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

10. 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 Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Center. During the fiscal year ended June 30, 1999, the Center received $1,798,284 of school foundation support for its general fund.

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

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

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education-Grants to States (IDEA Part B)	6B-PM	84.027	$22,500	$28,892
Special Education - Preschool Grant	PG-S1	84.173	14,196	9,425
Total Special Education Cluster			**36,696**	**38,317**
Adult Education- State Grant Program	AB-S1	84.002	56,390	59,561
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	4,000	6,098
Eisenhower Professional Development-State Grants		84.281	0	9,135
Safe and Drug Free Schools and Communities-State Grants	DR-S1	84.186	21,439	30,740
Passed Through Ohio Department of Health:				
Special Education-Grants for Infants and Families with Disabilities		84.181	62,452	57,327
Total Department of Education			**180,977**	**201,178**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Ohio Department of Mental Retardation & Developmental Disabilities:				
Medical Assistance Program	-	93.778	101,943	101,943
Total Department of Health and Human Services			**101,943**	**101,943**
Totals			**$282,920**	**$303,121**

The notes to the federal awards receipts and expenditures are an integral part of this statement.

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

FISCAL YEAR ENDED JUNE 30, 1999

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -- MATCHING REQUIREMENTS

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

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Board of Education
Perry-Hocking Educational Service Center
Perry County
1605 Airport Road
New Lexington, Ohio 43764

We have audited the financial statements of the Perry-Hocking Educational Service Center, Perry County, Ohio (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 30, 2001 wherein we noted the Center reports on a basis of accounting formerly prescribed or permitted by the Auditor of State. 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated January 30, 2001.

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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated January 30, 2001.

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

JIM PETRO
Auditor of State

January 30, 2001

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Perry-Hocking Educational Service Center
Perry County
1605 Airport Road
New Lexington, Ohio 43764

Compliance

We have audited the compliance of the Perry-Hocking Educational Service Center, Perry County, Ohio (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the Center in a separate letter dated January 30, 2001.

Internal Control Over Compliance

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

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

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

JIM PETRO
Auditor of State

January 30, 2001

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY
JUNE 30, 1999

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (list):**	Medical Assistance Program - #93.778 Adult Education Program - #84.002
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $300,000 Type B: All Others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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PERRY-HOCKING EDUCATIONAL SERVICE CENTER

PERRY 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 27, 2001