



**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



EDUCATIONAL SERVICE CENTER  
LICKING COUNTY

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Board of Education  
Educational Service Center  
Licking County  
675 Price Road  
Newark, Ohio 43055

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2000, 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Licking County Educational Service Center, Licking County, Ohio as of June 30, 2000, 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

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**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2000**

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Assets and Other Debits:</u>					
<u>Assets:</u>					
Cash and Cash Equivalents	\$957,768	\$141,269	\$0	\$0	\$1,099,037
Receivables:					
Intergovernmental	477,835	0	0	0	477,835
Materials and Supplies Inventory	1,601	0	0	0	1,601
Prepaid Items	17,733	3,456	0	0	21,189
Fixed Assets	0	0	423,267	0	423,267
<u>Other Debits:</u>					
Amount to be Provided from					
General Government Resources	0	0	0	132,270	132,270
<b>Total Assets and Other Debits</b>	<b><u>\$1,454,937</u></b>	<b><u>\$144,725</u></b>	<b><u>\$423,267</u></b>	<b><u>\$132,270</u></b>	<b><u>\$2,155,199</u></b>
<u>Liabilities, Fund Equity and Other Credits:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$4,529	\$98	\$0	\$0	\$4,627
Contracts Payable	1,825	350	0	0	2,175
Accrued Salaries Payable	238,610	24,524	0	0	263,134
Intergovernmental Payable	258,835	13,619	0	19,143	291,597
Deferred Revenue	414,813	0	0	0	414,813
Capital Leases Payable	0	0	0	4,794	4,794
Compensated Absences Payable	20,692	396	0	108,333	129,421
<b>Total Liabilities</b>	<b><u>939,304</u></b>	<b><u>38,987</u></b>	<b><u>0</u></b>	<b><u>132,270</u></b>	<b><u>1,110,561</u></b>
<u>Fund Equity and Other Credits:</u>					
Investment in General Fixed Assets	0	0	423,267	0	423,267
Fund Balances:					
Reserved for Encumbrances	2,378	23,960	0	0	26,338
Reserved for Inventory	1,601	0	0	0	1,601
Unreserved	511,654	81,778	0	0	593,432
<b>Total Fund Equity and Other Credits</b>	<b><u>515,633</u></b>	<b><u>105,738</u></b>	<b><u>423,267</u></b>	<b><u>0</u></b>	<b><u>1,044,638</u></b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$1,454,937</u></b>	<b><u>\$144,725</u></b>	<b><u>\$423,267</u></b>	<b><u>\$132,270</u></b>	<b><u>\$2,155,199</u></b>

See accompanying notes to the general purpose financial statements

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Revenues:</u>			
Intergovernmental	\$1,565,211	\$544,046	\$2,109,257
Interest	53,944	0	53,944
Tuition and Fees	1,519,724	0	1,519,724
Gifts and Donations	20,775	8,400	29,175
Miscellaneous	13,025	0	13,025
Total Revenues	<u>3,172,679</u>	<u>552,446</u>	<u>3,725,125</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	37,587	3,584	41,171
Special	598,358	151,289	749,647
Support Services:			
Pupils	576,192	46,038	622,230
Instructional Staff	1,298,564	211,009	1,509,573
Board of Education	14,798	0	14,798
Administration	529,833	24,625	554,458
Fiscal	136,203	2,250	138,453
Business	13,567	0	13,567
Operation and Maintenance of Plant	55,732	25,281	81,013
Pupil Transportation	375	0	375
Central	6,455	9,377	15,832
Non-Instructional Services	0	525	525
Capital Outlay	11,602	32,398	44,000
Debt Service:			
Principal Retirement	4,555	0	4,555
Interest and Fiscal Charges	1,061	0	1,061
Total Expenditures	<u>3,284,882</u>	<u>506,376</u>	<u>3,791,258</u>
Excess of Revenues Over (Under) Expenditures	(112,203)	46,070	(66,133)
Fund Balances at Beginning of Year	627,680	59,668	687,348
Increase in Reserve for Inventory	<u>156</u>	<u>0</u>	<u>156</u>
Fund Balances at End of Year	<u><u>\$515,633</u></u>	<u><u>\$105,738</u></u>	<u><u>\$621,371</u></u>

See accompanying notes to the general purpose financial statements



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**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues:</u>			
Intergovernmental	\$1,550,946	\$1,550,946	\$0
Interest	53,944	53,944	0
Tuition and Fees	1,593,891	1,593,891	0
Gifts and Donations	20,775	20,775	0
Miscellaneous	8,990	8,990	0
Total Revenues	<u>3,228,546</u>	<u>3,228,546</u>	<u>0</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	44,549	32,278	12,271
Special	929,352	656,658	272,694
Support Services:			
Pupils	703,258	642,517	60,741
Instructional Staff	1,510,842	1,368,499	142,343
Board of Education	18,900	14,985	3,915
Administration	554,734	444,827	109,907
Fiscal	159,293	136,893	22,400
Business	18,942	13,567	5,375
Operation and Maintenance of Plant	108,742	57,026	51,716
Pupil Transportation	29,911	375	29,536
Central	10,900	5,498	5,402
Non-Instructional Services	0	0	0
Capital Outlay	174,824	108,502	66,322
Total Expenditures	<u>4,264,247</u>	<u>3,481,625</u>	<u>782,622</u>
Excess of Revenues Over (Under) Expenditures	(1,035,701)	(253,079)	782,622
Fund Balances at Beginning of Year	736,705	736,705	0
Prior Year Encumbrances Appropriated	<u>220,833</u>	<u>220,833</u>	<u>0</u>
Fund Balances (Deficit) at End of Year	<u><u>(\$78,163)</u></u>	<u><u>\$704,459</u></u>	<u><u>\$782,622</u></u>

See accompanying notes to the general purpose financial statements

Special Revenue Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$563,935	\$563,935	\$0	\$2,114,881	\$2,114,881	\$0
0	0	0	53,944	53,944	0
0	0	0	1,593,891	1,593,891	0
8,400	8,400	0	29,175	29,175	0
0	0	0	8,990	8,990	0
<u>572,335</u>	<u>572,335</u>	<u>0</u>	<u>3,800,881</u>	<u>3,800,881</u>	<u>0</u>
12,493	12,493	0	57,042	44,771	12,271
191,291	171,485	19,806	1,120,643	828,143	292,500
46,368	46,294	74	749,626	688,811	60,815
324,555	224,091	100,464	1,835,397	1,592,590	242,807
0	0	0	18,900	14,985	3,915
27,992	27,992	0	582,726	472,819	109,907
3,000	3,000	0	162,293	139,893	22,400
0	0	0	18,942	13,567	5,375
25,528	25,169	359	134,270	82,195	52,075
0	0	0	29,911	375	29,536
17,719	9,377	8,342	28,619	14,875	13,744
1,558	525	1,033	1,558	525	1,033
36,416	36,416	0	211,240	144,918	66,322
<u>686,920</u>	<u>556,842</u>	<u>130,078</u>	<u>4,951,167</u>	<u>4,038,467</u>	<u>912,700</u>
(114,585)	15,493	130,078	(1,150,286)	(237,586)	912,700
48,096	48,096	0	784,801	784,801	0
40,647	40,647	0	261,480	261,480	0
<u>(\$25,842)</u>	<u>\$104,236</u>	<u>\$130,078</u>	<u>(\$104,005)</u>	<u>\$808,695</u>	<u>\$912,700</u>

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**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**1. REPORTING ENTITY**

The Licking County Educational Service Center (the "Educational Service Center") is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Licking Heights, Lakewood, Licking Valley, North Fork, Northridge, and Southwest Licking Local School Districts, Granville Exempted Village School District, Newark and Heath City School Districts, and the Licking County Joint Vocational School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 37 support staff employees and 47 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

**B. Component Units**

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The Educational Service Center is associated with the Licking Area Computer Association, the Licking County Joint Vocational School, the Metropolitan Educational Council, Coalition of Rural and Appalachian Schools, Central Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan, which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in Notes 15 and 16.

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis Of Presentation - Fund Accounting**

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are all grouped into the governmental generic fund type category.

**Governmental Fund Types:**

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

**General Fund**

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

**Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting (Continued)**

**Account Groups:**

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

**General Fixed Assets Account Group**

This account group is established to account for all fixed assets of the Educational Service Center.

**General Long-Term Obligations Account Group**

This account group is established to account for all long-term obligations of the Educational Service Center.

**B. Measurement Focus and Basis of Accounting**

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

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

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

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

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Excess costs which are measurable as of June 30, 2000 but whose availability is indeterminable have been recorded as deferred revenue.

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting (Continued)**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in a debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**C. Budgetary Data**

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

**Appropriations:**

The annual appropriation resolution is legally enacted by the Educational Service 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 Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service 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 Educational Service Center.



**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Data (Continued)**

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed 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 non-GAAP 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. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**Lapsing of Appropriations:**

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

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2000, investments were limited to STAR Ohio and repurchase agreements. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2000. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2000 amounted to \$53,944, which includes \$9,311 assigned from other Educational Service Center funds.

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and Cash Equivalents (Continued)**

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During the fiscal year, the Educational Service Center had no investments that met these criteria.

**E. Inventory**

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**G. Fixed Assets and Depreciation**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated. The Educational Service Center does not have any infrastructure.

**H. 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.

EDUCATIONAL SERVICE CENTER  
LICKING COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues (Continued)

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

*Entitlements*

*General Fund*

State Foundation Program

*Non-Reimbursable Grants*

*Special Revenue Funds*

Media Center Satellite

Education Management Information Systems

Eisenhower

Entry Year

Parent Mentor Project

Public School Preschool

Handicapped Preschool

Ohio SchoolNet Professional Development

Continuous Improvement

Technical Assistance

*Reimbursable Grants*

*General Fund*

Community Alternative Funding System

Grants and entitlements amounted to 57 percent of the Educational Service Center's governmental fund operating revenue during the 2000 fiscal year.

I. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than three months of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after eleven years of current service with the Educational Service Center.

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Compensated Absences (Continued)**

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**J. 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 judgements, compensated absences, contractually required pension contributions, and special 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. Capital leases are reported as a liability of the general long-term obligations account group until due.

**K. Fund Balance Reserves**

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

**L. Interfund Transactions**

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

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. The Educational Service Center had no interfund transactions in fiscal year 2000.

**M. Estimates**

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

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Total Columns on General Purpose Financial Statements**

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

**3. ACCOUNTABILITY AND LEGAL COMPLIANCE**

The following funds had appropriations in excess of estimated resources contrary to Section 3317.11, Revised Code:

	<u>Excess</u>
<u>General Fund:</u>	
General	\$78,163
<u>Special Revenue Fund:</u>	
Eisenhower	25,842

The following fund had a deficit fund balance as of June 30, 2000:

	<u>Deficit Fund Balance</u>
<u>Special Revenue Fund:</u>	
Handicapped Preschool	\$13

The deficit in the special revenue fund is the result of the recognition of payables in accordance with Generally Accepted Accounting Principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**4. BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING (Continued)**

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

Excess of Revenues Over (Under) Expenditures  
All Governmental Fund Types

	General	Special Revenue
GAAP Basis	(\$112,203)	\$46,070
Net Adjustment for Revenue Accruals	55,867	19,889
Prepaid Items	(1,908)	(1,203)
Net Adjustment for Expenditure Accruals	58,474	(12,230)
Encumbrances	(253,309)	(37,033)
<u>Budget Basis</u>	<u>(\$253,079)</u>	<u>\$15,493</u>

**5. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits 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.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public 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
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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits:** At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$98,804) and the bank balance was \$60,000. All of the bank balance was covered by federal depository insurance.

**Investments:** The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service 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.

	Category 3	Carrying and Fair Value
Repurchase Agreement	\$872,997	\$872,997
STAR Ohio		324,849
Totals		\$1,197,846

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,099,042	\$0
Investments of the Cash Management Pool:		
Repurchase Agreements	(872,997)	872,997
STAR Ohio	(324,849)	324,849
GASB Statement 3	(\$98,804)	\$1,197,846



**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**6. STATE FUNDING**

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

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

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

**7. RECEIVABLES**

Receivables at June 30, 2000, consisted of charges for services, excess costs, and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund:	
Excess Costs	\$447,125
CAFS	26,382
Testing Materials	3,659
Copies	381
Other	288
Total	<u>\$477,835</u>

**8. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2000 follows:

	<u>Balance at 6/30/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/00</u>
Furniture and Equipment	\$365,215	\$44,000	\$1,259	\$407,956
Vehicles	15,311	0	0	15,311
Total	<u>\$380,526</u>	<u>\$44,000</u>	<u>\$1,259</u>	<u>\$423,267</u>

**EDUCATIONAL SERVICE CENTER  
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**9. RISK MANAGEMENT**

The Educational Service 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 2000, the Educational Service Center contracted with Nationwide Insurance for property insurance, data processing equipment, and general liability insurance and contacted with Ohio Casualty Group for inland marine and automobile coverage.

Coverages provided by Nationwide Insurance and the Ohio Casualty Group are as follows:

Personal Property	\$398,500
Data Processing Equipment (\$250 Deductible)	132,000
General Liability	
Per Occurrence	2,000,000
Aggregate Limit	5,000,000
Inland Marine (\$100 deductible)	40,000
Automobile Liability (\$500 deductible)	1,000,000
Uninsured Motorists (\$500 deductible)	1,000,000

Settled claims have not exceeded coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2000, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**10. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. State Teachers Retirement System (Continued)**

For the fiscal year ended June 30, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$111,691, \$101,121 and \$165,730 respectively; the full 2000 pension payment was not paid until August 2000 and is recorded as a liability within the respective funds. The full pension obligations were paid for fiscal years 1999 and 1998.

**B. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$34,488, \$45,979 and \$46,163, respectively; 100 percent has been contributed for fiscal years 1999 and 1998. \$2,836 representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the general long-term obligations account group.

**11. POST-EMPLOYMENT BENEFITS**

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

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**11. POST-EMPLOYMENT BENEFITS (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2000, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$148,921 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2000, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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 2000, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2000 fiscal year equaled \$65,122.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees and administration employees earn twenty to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**12. EMPLOYEE BENEFITS (Continued)**

**A. Compensated Absences (Continued)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 192 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days.

**B. Insurance Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through United Health Care of Ohio. The Educational Service Center pays monthly premiums of up to \$275 maximum per person. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center requires the employees to contribute \$5 for single coverage and \$10 for family coverage towards their total dental premium and the Educational Service Center pays the remaining premium. The Educational Service Center also provides life insurance through Metropolitan Life Insurance Company at a cost of \$5 per employee.

**13. CAPITAL LEASES - LESSEE DISCLOSURE**

The Educational Service Center has entered into a capitalized lease for photo-copying equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements. These expenditures are reported as function expenditures on the budgetary statements.

Equipment acquired by lease has been capitalized in the general fixed assets account group in the amount of \$16,970, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2000 totaled \$4,555.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the net minimum lease payments:

	<u>Amount</u>
Fiscal Year 2001	\$5,148
Less: Amount Representing Interest	<u>(354)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$4,794</u></u>

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**14. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2000 were as follows:

	<u>Outstanding 6/30/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 6/30/00</u>
Compensated Absences	\$117,276	\$65,515	\$74,458	\$108,333
Capital Lease Payable	9,349	0	4,555	4,794
Pension Obligation	<u>14,585</u>	<u>19,143</u>	<u>14,585</u>	<u>19,143</u>
Total Long-Term Obligations	<u>\$141,210</u>	<u>\$84,658</u>	<u>\$93,598</u>	<u>\$132,270</u>

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

**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Licking Area Computer Association**

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the Educational Service Center's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. Financial statements for LACA can be obtained from their fiscal agent - the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

**B. Licking County Joint Vocational School**

The Licking County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three representatives from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. To obtain financial information write to the Licking County Joint Vocational School, Shirley Dupps, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. Metropolitan Educational Council**

The Educational Service Center participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The Educational Service Center does not participate in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Educational Service Center's membership payment to MEC for fiscal year 2000 was \$300. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

**D. 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 Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Educational Service Center's membership fee was \$300 for fiscal year 2000.

**E. Central Ohio Special Education Regional Resource Center**

The Central Ohio Educational Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. The Educational Service Center has a cooperative agency agreement with COSERRC. There is no financial commitment by the Educational Service Center for its participation in the projects. The District is represented on the governing board by a district member. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000  
(Continued)**

**16. INSURANCE PURCHASING POOL**

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

The Educational Service 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.

**17. 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 that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this Educational Service Center. During the fiscal year ended June 30, 2000, the Educational Service Center received \$1,477,760 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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. 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 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 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 Educational Service 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.



**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**18. CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2000.

**B. Litigation**

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

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

Board of Education  
Educational Service Center  
Licking County  
675 Price Road  
Newark, Ohio 43055

We have audited the general-purpose financial statements of the Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2000, 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 Center's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. 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 Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education  
Educational Service Center  
Licking County  
Report on Compliance and on Internal Control Required by  
*Government Auditing Standards*  
Page 2

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  

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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

**LICKING COUNTY EDUCATIONAL SERVICE CENTER**

**LICKING 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  
JANUARY 11, 2001**