PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

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, 2001. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03(B) requires the Center to file its annual financial report pursuant to generally accepted accounting principles. However, as discussed in Note 1, for the year ended June 30, 2001, the Center prepared 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 cash, investments and combined fund cash balances of the Perry-Hocking Educational Service Center, Perry County, as of June 30, 2001, 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 December 13, 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 made 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. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented 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, the 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

December 13, 2001

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2001

Cash	$ 741,306
Investments	508,908
Total	**$ 1,250,214**

CASH BALANCES BY FUND TYPE

Governmental Funds:	
General Fund	$ 828,130
Special Revenue Funds	417,045
Proprietary Funds:	
Enterprise Funds	0
Internal Service Fund	5,039
Total	**$ 1,250,214**

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Receipts:			
Receipts from Local Sources			
Tuition	$	$ 85,357	$ 85,357
Earnings on Investment	63,780		63,780
Miscellaneous	498,491	6,093	504,584
Receipts from Intermediate Sources			
Restricted Grants-In-Aid		1,565,487	1,565,487
Receipts from State Sources			
Unrestricted Grants-In-Aid	2,281,748		2,281,748
Restricted Grants-In-Aid		712,615	712,615
Receipts from Federal Sources			
Unrestricted Grants-In-Aid		25,000	25,000
Restricted Grants-In-Aid	83,048	151,896	234,944
Total Receipts	2,927,067	2,546,448	5,473,515
Disbursements:			
Instruction:			
Regular	2,598	468,838	471,436
Special	1,585,707	430,006	2,015,713
Adult/Continuing		41,181	41,181
Supporting Services:			
Pupils	405,062	529,539	934,601
Instructional Staff	160,069	121,162	281,231
Board of Education	162,568		162,568
Administration	736,790	392,887	1,129,677
Fiscal Services	59,118	21,510	80,628
Operation and Maintenance - Plant	48,575	239,109	287,684
Pupil Transportation	1,250	10,887	12,137
Central	71,254		71,254
Community Services		54,428	54,428
Extracurricular Activities:			
Academic and Subject Oriented Activities		3,997	3,997
Facilities Acquisition and Construction Services:			
Site Improvement		117,648	117,648
Building Acquisition and Construction		82,949	82,949
Total Disbursements	3,232,991	2,514,141	5,747,132
Excess of Receipts Over/(Under) Disbursements	(305,924)	32,307	(273,617)
Other Financing Sources/(Uses):			
Transfers-In		15,697	15,697
Refund of Prior Year Expenditures	529		529
Refunds and Reimbursements	241,377		241,377
Transfers-Out	(17,754)		(17,754)
Advances-Out	(10,000)		(10,000)
Total Other Financing Sources/(Uses)	214,152	15,697	229,849
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	(91,772)	48,004	(43,768)
Fund Cash Balances, July 1	919,902	369,041	1,288,943
Fund Cash Balances, June 30	**$ 828,130**	**$ 417,045**	**$ 1,245,175**

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Totals
	Enterprise	**Internal Service**	**(Memorandum Only)**
Operating Receipts:			
Food Service	$ 2,986	$	$ 2,986
Total Operating Receipts	2,986		2,986
Operating Disbursements:			
Purchased Services	23,868	4,967	28,835
Total Operating Disbursements	23,868	4,967	28,835
Operating Income/(Loss)	(20,882)	(4,967)	(25,849)
Nonoperating Receipts/(Disbursements):			
Miscellaneous	10,608	6	10,614
Federal Unrestricted Grants-In-Aid	8,217		8,217
Total Nonoperating Receipts/(Disbursements)	18,825	6	18,831
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(2,057)	(4,961)	(7,018)
Transfers-In	2,057		2,057
Advances-In		10,000	10,000
Net Income/(Loss)	0	5,039	5,039
Fund Cash Balances, July 1	0	0	0
Fund Cash Balances, June 30	**$ 0**	**$ 5,039**	**$ 5,039**

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 -
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Fund Types/Funds	Budget	Actual	Variance Favorable (Unfavorable)
Governmental			
General	$ 3,192,517	$ 3,168,973	$ (23,544)
Special Revenue	2,564,402	2,562,145	(2,257)
Proprietary			
Enterprise	23,414	23,868	454
Internal Service	10,000	10,006	6
Totals (Memorandum Only)	**$ 5,790,333**	**$ 5,764,992**	**$ (25,341)**

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
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Fund Types/Funds	Prior Year Carryover Appropriations	Appropriations	Total	Disbursements	Encumbrances Outstanding 6/30/01	Total	Variance Favorable (Unfavorable)
Governmental							
General	$ 43,717	$ 3,228,283	$ 3,272,000	$ 3,260,745	$ 10,976	$ 3,271,721	$ 279
Special Revenue	75,325	2,855,858	2,931,183	2,514,141	42,259	2,556,400	374,783
Proprietary							
Enterprise		23,868	23,868	23,868		23,868	0
Internal Service		10,006	10,006	4,967		4,967	5,039
Totals (Memorandum Only)	**$ 119,042**	**$ 6,118,015**	**$ 6,237,057**	**$ 5,803,721**	**$ 53,235**	**$ 5,856,956**	**$ 380,101**

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, Perry County (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.

The Center is associated with the following entities, presented in Note 7, which are defined as jointly governed organizations:

- Southeastern Ohio Voluntary Education Cooperative
- Coalition of Rural and Appalachian Schools
- Central Ohio Special Education Regional Resource Center
- Ohio Coalition for Equity and Adequacy of School Funding
- Ohio Coalition for Children with Disabilities

In addition the Center is associated with the Ohio School Boards Association Worker's Compensation Group Rating Program, an insurance purchasing pool. This organization is presented in Note 8.

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 117-2-03(B) to prepare its annual financial report pursuant to accounting principles generally accepted in the United States of America, 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.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Center in a Fiscal Caution Status. This status requires the Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Pooled Cash and Investments

The Center invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The investment in STAROhio is valued at amounts reported by the State Treasurer.

D. Fund Accounting

The Center 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. Governmental Fund Types

General Fund

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

Special Revenue Funds

Special Revenue Funds are used 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.

2. Proprietary Fund Types

Enterprise Fund

The Enterprise Fund is used to account for operations (a) that are financed and operated in manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination or revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Proprietary Fund Types (Continued)

Internal Service Fund

The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

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 then are 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 level of expenditures, which is the legal level 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 must be approved by the Center.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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, 2001.

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

The Center maintains a cash and investment pool which is used by all funds. Each fund type’s portion of this pool is displayed on the “Combined Statement of Cash, Investments and Fund Cash Balances” as “Cash Balances by Fund Type.”

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.

2. CASH AND CASH EQUIVALENTS (Continued)

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:

a. 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;

b. 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;

c. 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;

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

e. 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;

f. The State Treasurer's investment pool (STAROhio); and

g. 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.

2. CASH AND CASH EQUIVALENTS (Continued)

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 $741,306 and the bank balance was $1,024,082. Of the bank balance:

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

2. $924,082 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: Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2001. The Center's investment in STAROhio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

Investments	Carrying Value	Market Value
STAROhio	$508,908	$508,908

3. RISK MANAGEMENT

A. Property and Liability

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 the fiscal year ending June 30, 2001, the Center contracted with various insurance companies for property and general liability insurance.

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.

3. RISK MANAGEMENT (Continued)

B. Workers' Compensation

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.

C. Employee Medical and Life Benefits

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 $659.32 for family and $213.58 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 80% of the premium for all employees. Monthly premiums for this coverage are $37.23 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 $37. 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.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was required to contribute 14 percent; 9.5 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 Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were $431,209, $318,171, and $289,123, 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 Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. 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 Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were $187,673, $143,217, and $125,745, 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, 2001, 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.

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 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $431,209 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was $3,419 million. For the year ended June 30, 2000, net health care costs paid by STRS were $283,137,000 and STRS had 99,011 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at $12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled $187,673.

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

7. JOINTLY GOVERNED ORGANIZATIONS

A. The Southeast Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium 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. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. Central Ohio Special Education Regional Resource Center (COSERRC)

The Central Ohio Special Education Regional Resource Center (COSERRC) 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. COSERRC is not dependent upon the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for COSERRC.

C. 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 $524 for fiscal year 2001.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the Center and the Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Center's membership fee was $300 for fiscal year 2001.

E. Ohio Coalition for Children With Disabilities

The Coalition exists to provide educational opportunities for special needs children being served in all 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.

8. INSURANCE PURCHASING POOL

Ohio School Boards Association (OSBA) 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. 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, 2001.

B. 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, 2001.

10. SCHOOL FUNDING DECISION

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 13, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

10. SCHOOL FUNDING DECISION (Continued)

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

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

11. MISCELLANEOUS REVENUES

The revenue category "Miscellaneous Revenue" is comprised of several revenue sources. The following is a summary of those sources in the General Fund for the year ended June 30, 2001:

Source	Amounts
Program Charges to Local Districts	$468,430
In-services and Other Training	9,760
Vending Sales	2,274
Fees for Background Checks	10,876
Summer School Fees	1,836
Donations	2,350
Other	2,965
Total Miscellaneous Revenues	$498,491

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

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

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Passed Through State Library of Ohio:				
State Library Program	II-48-E-2-99	45.310	$4,950	$7,084
Total National Endowment for the Humanities			4,950	7,084
UNITED STATES DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
National School Lunch Program	N/A	10.555	8,217	8,217
Total United States Department of Agriculture			8,217	8,217
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Adult Education - State Grant Program	AB-S1	84.002	80,076	76,540
Special Education - Preschool Grants	PG-S1	84.173	18,498	18,311
Safe and Drug Free Schools and Communities-State Grants	DR-S1	84.186	43,372	53,749
Goals 2000 - State and Local Education Systematic Improvement	G2-SP	84.276	25,000	42,152
Total United States Department of Education			166,946	190,752
UNITED STATES DEPARTMENT OF JUSTICE				
Passed Through State Department of Justice:				
Enforcing Underage Laws Drinking Program	N/A	16.727	5,000	4,684
Total United States Department of Justice			5,000	4,684
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Perry County Jobs and Family Services				
Temporary Assistance for Needy Families	N/A	93.558	1,565,487	1,521,224
Passed Through Ohio Department of Mental Retardation and Developmental Disabilities				
Medical Assistance Program	N/A	93.778	83,048	83,048
Total United States Department of Health and Human Services			1,648,535	1,604,272
Total Federal Awards Receipts and Expenditures			**$1,833,648**	**$1,815,009**

The accompanying notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) GRANT PROGRAM MONIES

TANF grant (CFDA 93.558) monies are passed-through the Perry County Department of Jobs and Family Services to the Educational Service Center.

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

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

To the Board of Education:

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, 2001, and have issued our report thereon dated December 13, 2001, wherein we noted that the Center had not adopted accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2001-11064-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated December 13, 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 the management of the Center in a separate letter dated December 13, 2001.

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

Jim Petro
Auditor of State

December 13, 2001

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

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

To the Board of Education:

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 its major federal program for the year ended June 30, 2001. The Center's major federal program is 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 its major federal program 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 its major federal program for the year ended June 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, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 13, 2001

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2001

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 conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under §.510?**	No
(d)(1)(vii)	**Major Programs (list):**	Temporary Assistance for Needy Families (TANF) - CFDA # 93.558
(d)(1)(viii)	**Dollar Threshold: Type A/B Programs**	Type A: > $300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	Yes

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2001
(Continued)

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

Finding Number 2001-11064-001

Ohio Admin. Code §117-2-03(B) requires the Center to file its annual financial report pursuant to generally accepted accounting principles.

The Center prepared and filed its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a 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. The Center can be fined and various other legal administrative remedies may be taken against the Center.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Center in Fiscal Caution Status. This status requires the Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

We recommend the Center take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

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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
DECEMBER 27, 2001