



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**



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

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**STATE OF OHIO**



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

Hamilton County Educational Service Center  
Hamilton County  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231-1499

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service 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 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.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Service Center, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note O during the year ended June 30, 2001, the Service Center adopted Governmental Accounting Statement No. 33 and No. 36 and reclassified the Ohio Principal Center and AAESA funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2001 on our consideration of the Service 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.

We performed our audit to form an opinion on the general-purpose financial statements of the Service Center taken as a whole. The accompanying schedule of federal awards expenditures is presented for 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 general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

**Jim Petro**  
Auditor of State

December 19, 2001

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Hamilton County Educational Service Center  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 June 30, 2001

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>Assets and Other Debits:</b>			
Equity in Pooled Cash and Investments	\$2,623,300	\$2,586,970	\$35,703
<b>Receivables:</b>			
Intergovernmental	228,321	3,599,108	58,500
Interfund Receivable	1,501,100	0	0
Inventory	1,852	0	0
Fixed Assets ( Net, where applicable, of Accumulated Depreciation)	0	0	0
<b>Other Debits:</b>			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
<b>Total Assets &amp; Other Debits</b>	<u>4,354,573</u>	<u>6,186,078</u>	<u>94,203</u>
<b>Liabilities, Fund Equity &amp; Other Credits:</b>			
<b>Liabilities:</b>			
Accounts Payable	99,463	533,085	0
Accrued Wages & Benefits	2,616,200	480,343	0
Compensated Absences Payable	29,111	23,621	0
Interfund Payable	0	1,501,100	0
Deferred Revenue	0	1,120,433	58,500
Intergovernmental Payable	0	0	0
Capital Lease Obligations	0	0	0
<b>Total Liabilities</b>	<u>2,744,774</u>	<u>3,658,582</u>	<u>58,500</u>
<b>Fund Equity &amp; Other Credits:</b>			
Investment in General Fixed Assets	0	0	0
<b>Retained Earnings:</b>			
Unreserved	0	0	0
<b>Fund Balance:</b>			
Reserved for Encumbrances	78,931	1,046,297	3,500
Reserved for Inventory	1,852	0	0
Unreserved & Undesignated	1,529,016	1,481,199	32,203
<b>Total Fund Equity &amp; Other Credits</b>	<u>1,609,799</u>	<u>2,527,496</u>	<u>35,703</u>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<u>\$4,354,573</u>	<u>\$6,186,078</u>	<u>\$94,203</u>

See accompanying notes.



Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$16,467	\$57,655	\$1,223,147	\$0	\$0	\$6,543,242
0	0	133,060	0	0	4,018,989
0	0	0	0	0	1,501,100
0	0	0	0	0	1,852
0	0	0	2,874,799	0	2,874,799
0	0	0	0	2,274,124	2,274,124
<u>16,467</u>	<u>57,655</u>	<u>1,356,207</u>	<u>2,874,799</u>	<u>2,274,124</u>	<u>17,214,106</u>
0	250	0	0	0	632,798
0	0	0	0	16,948	3,113,491
0	0	0	0	2,248,152	2,300,884
0	0	0	0	0	1,501,100
0	0	0	0	0	1,178,933
0	0	1,356,207	0	0	1,356,207
0	0	0	0	9,024	9,024
0	250	1,356,207	0	2,274,124	10,092,437
0	0	0	2,874,799	0	2,874,799
16,467	57,405	0	0	0	73,872
0	0	0	0	0	1,128,728
0	0	0	0	0	1,852
0	0	0	0	0	3,042,418
<u>16,467</u>	<u>57,405</u>	<u>0</u>	<u>2,874,799</u>	<u>0</u>	<u>7,121,669</u>
<u>\$16,467</u>	<u>\$57,655</u>	<u>\$1,356,207</u>	<u>\$2,874,799</u>	<u>\$2,274,124</u>	<u>\$17,214,106</u>

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**Hamilton County Educational Service Center  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 All Governmental Fund Types  
 For the Year Ended June 30, 2001**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Revenues:</b>				
Intergovernmental	\$5,176,666	\$13,158,076	\$6,500	\$18,341,242
Investment	314,735	0	0	314,735
Tuition & Fees	39,180	0	0	39,180
Extracurricular Activities	22,559	0	0	22,559
Charges for Services	17,348,912	0	0	17,348,912
Miscellaneous	125,016	7,849	0	132,865
<b>Total Revenues</b>	<b>23,027,068</b>	<b>13,165,925</b>	<b>6,500</b>	<b>36,199,493</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Special	6,849,911	123,555	0	6,973,466
Vocational	238,358	0	0	238,358
Other	0	1,000	0	1,000
<b>Support Services:</b>				
Pupils	4,795,642	81,414	0	4,877,056
Instructional Staff	1,628,457	1,891,565	0	3,520,022
Board of Education	31,280	0	0	31,280
Administration	1,822,068	3,982,181	23,105	5,827,354
Fiscal	531,754	87,123	0	618,877
Business	447,198	0	0	447,198
Operation & Maintenance of Plant	0	77,114	0	77,114
Central	246,321	265,425	0	511,746
Operation of Non-Instructional Services	5,847,336	6,400,020	0	12,247,356
<b>Debt Service:</b>				
Principal Retirement	4,975	2,896	0	7,871
Interest & Fiscal Charges	617	155	0	772
<b>Total Expenditures</b>	<b>22,443,917</b>	<b>12,912,448</b>	<b>23,105</b>	<b>35,379,470</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>583,151</b>	<b>253,477</b>	<b>(16,605)</b>	<b>820,023</b>
<b>Fund Balance (Restated), Beginning of Year</b>	<b>1,026,266</b>	<b>2,274,019</b>	<b>52,308</b>	<b>3,352,593</b>
<b>Increase (Decrease) in Reserve for Inventory</b>	<b>382</b>	<b>0</b>	<b>0</b>	<b>382</b>
<b>Fund Balance, End of Year</b>	<b>\$1,609,799</b>	<b>\$2,527,496</b>	<b>\$35,703</b>	<b>\$4,172,998</b>

See accompanying notes.

Hamilton County Educational Service Center  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 All Governmental Fund Types  
 For the Year Ended June 30, 2001

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Intergovernmental	\$5,412,396	\$5,412,396	\$0	\$12,739,543	\$12,739,543	\$0
Investment	311,337	311,337	0	0	0	0
Tuition & Fees	39,180	39,180	0	0	0	0
Extracurricular Activities	22,559	22,559	0	0	0	0
Miscellaneous	17,447,764	17,447,764	0	7,849	7,849	0
<b>Total Revenues</b>	<b>23,233,236</b>	<b>23,233,236</b>	<b>0</b>	<b>12,747,392</b>	<b>12,747,392</b>	<b>0</b>
<b>Expenditures:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Special	6,909,376	6,909,376	0	156,974	156,974	0
Vocational	232,439	232,439	0	0	0	0
Other	1,617	1,617	0	2,846	2,846	0
<b>Support Services:</b>						
Pupils	4,793,670	4,793,670	0	75,075	75,075	0
Instructional Staff	1,639,599	1,639,599	0	2,067,176	2,067,176	0
Board of Education	32,663	32,663	0	0	0	0
Administration	1,846,174	1,846,174	0	4,231,594	4,231,594	0
Fiscal	550,345	550,345	0	98,908	98,908	0
Business	466,581	466,581	0	0	0	0
Operation & Maintenance of Plant	0	0	0	87,442	87,442	0
Central	243,254	243,254	0	370,032	370,032	0
Operation of Non-Instructional Services	5,881,273	5,881,273	0	7,188,610	7,188,610	0
<b>Total Expenditures</b>	<b>22,596,991</b>	<b>22,596,991</b>	<b>0</b>	<b>14,278,657</b>	<b>14,278,657</b>	<b>0</b>
<b>Excess (Deficiency) of Revenues Over Under Expenditures</b>	<b>636,245</b>	<b>636,245</b>	<b>0</b>	<b>(1,531,265)</b>	<b>(1,531,265)</b>	<b>0</b>
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In	26,164	26,164	0	0	0	0
Advances In	1,475,500	1,475,500	0	1,501,100	1,501,100	0
Advances (Out)	(1,601,100)	(1,601,100)	0	(1,475,500)	(1,475,500)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(99,436)</b>	<b>(99,436)</b>	<b>0</b>	<b>25,600</b>	<b>25,600</b>	<b>0</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures &amp; Other Financing Uses</b>	<b>536,809</b>	<b>536,809</b>	<b>0</b>	<b>(1,505,665)</b>	<b>(1,505,665)</b>	<b>0</b>
<b>Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)</b>	<b>1,906,879</b>	<b>1,906,879</b>	<b>0</b>	<b>2,529,258</b>	<b>2,529,258</b>	<b>0</b>
<b>Fund Balance, End of Year</b>	<b>\$2,443,688</b>	<b>\$2,443,688</b>	<b>\$0</b>	<b>\$1,023,593</b>	<b>\$1,023,593</b>	<b>\$0</b>

See accompanying notes.

Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$6,500	\$6,500	\$0	\$18,158,439	\$18,158,439	\$0
0	0	0	311,337	311,337	0
0	0	0	39,180	39,180	0
0	0	0	22,559	22,559	0
0	0	0	17,455,613	17,455,613	0
<b>6,500</b>	<b>6,500</b>	<b>0</b>	<b>35,987,128</b>	<b>35,987,128</b>	<b>0</b>
0	0	0	7,066,350	7,066,350	0
0	0	0	232,439	232,439	0
0	0	0	4,463	4,463	0
0	0	0	4,868,745	4,868,745	0
0	0	0	3,706,775	3,706,775	0
0	0	0	32,663	32,663	0
26,605	26,605	0	6,104,373	6,104,373	0
0	0	0	649,253	649,253	0
0	0	0	466,581	466,581	0
0	0	0	87,442	87,442	0
0	0	0	613,286	613,286	0
0	0	0	13,069,883	13,069,883	0
<b>26,605</b>	<b>26,605</b>	<b>0</b>	<b>36,902,253</b>	<b>36,902,253</b>	<b>0</b>
<b>(20,105)</b>	<b>(20,105)</b>	<b>0</b>	<b>(915,125)</b>	<b>(915,125)</b>	<b>0</b>
0	0	0	26,164	26,164	0
0	0	0	2,976,600	2,976,600	0
0	0	0	(3,076,600)	(3,076,600)	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>(73,836)</b>	<b>(73,836)</b>	<b>0</b>
<b>(20,105)</b>	<b>(20,105)</b>	<b>0</b>	<b>(988,961)</b>	<b>(988,961)</b>	<b>0</b>
<b>52,307</b>	<b>52,307</b>	<b>0</b>	<b>4,488,444</b>	<b>4,488,444</b>	<b>0</b>
<b>\$32,202</b>	<b>\$32,202</b>	<b>\$0</b>	<b>\$3,499,483</b>	<b>\$3,499,483</b>	<b>\$0</b>

**Hamilton County Educational Service Center  
 Combined Statement of Revenues, Expenses  
 And Changes in Retained Earnings  
 All Proprietary Fund Types  
 For the Year Ended June 30, 2001**

	<b>Proprietary Fund Types</b>		<b>Totals (Memorandum Only)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	
<b>Operating Revenues:</b>			
<b>Miscellaneous Revenue</b>	<b>\$10,048</b>	<b>\$39,212</b>	<b>\$49,260</b>
<b>Total Operating Revenues</b>	<b>10,048</b>	<b>39,212</b>	<b>49,260</b>
<b>Operating Expenses:</b>			
<b>Purchased Services</b>	<b>19,790</b>	<b>56,915</b>	<b>76,705</b>
<b>Materials &amp; Supplies</b>	<b>0</b>	<b>235</b>	<b>235</b>
<b>Other Operating Expenses</b>	<b>0</b>	<b>300</b>	<b>300</b>
<b>Total Operating Expenses</b>	<b>19,790</b>	<b>57,450</b>	<b>77,240</b>
<b>Net Income (Loss)</b>	<b>(9,742)</b>	<b>(18,238)</b>	<b>(27,980)</b>
<b>Retained Earnings (Restated), Beginning of Year</b>	<b>26,209</b>	<b>75,643</b>	<b>101,852</b>
<b>Retained Earnings, End of Year</b>	<b>\$16,467</b>	<b>\$57,405</b>	<b>\$73,872</b>

**See accompanying notes.**

**Hamilton County Educational Service Center  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types  
 For the Year Ended June 30, 2001**

	<b>Proprietary Fund Types</b>		<b>Totals (Memorandum only)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Miscellaneous Sources	\$10,048	\$39,212	\$49,260
Cash Payments for Contract Services	(17,170)	(56,665)	(73,835)
Cash Payments for Supplies & Materials	(2,620)	(535)	(3,155)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(9,742)</b>	<b>(17,988)</b>	<b>(27,730)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(9,742)</b>	<b>(17,988)</b>	<b>(27,730)</b>
<b>Cash and Cash Equivalents (Restated), Beginning of Year</b>	<b>26,209</b>	<b>75,643</b>	<b>101,852</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$16,467</b>	<b>\$57,655</b>	<b>\$74,122</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	(\$9,742)	(\$18,238)	(\$27,980)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>			
<b>Changes in Assets and Liabilities:</b>			
Increase (Decrease) in Accounts Payable	0	250	250
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(9,742)</b>	<b>(17,988)</b>	<b>(27,730)</b>

See accompanying notes.

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**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**NOTE A-DESCRIPTION OF THE BOARD**

The Hamilton County Educational Service Center serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; and, Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend.

The Hamilton County Educational Service Center's Governing Board is comprised of five members who are resident electors of the County School district. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the six local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the six local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Lockland, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Joint Vocational District have one or another types of cooperative service agreements with the County School system.

The Office of the Board is regularly referred to as the Hamilton County Educational Service Center (HCESSC) which is housed in a separate, modern facility in a complex known as Civic Center North, a development provided for diverse services by the Board of County Commissioners. The HCESSC serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and his staff of approximately 581 certificated and non-certificated support employees.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Governing Board 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 Board's significant accounting policies are described below.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. The Reporting Entity**

For financial reporting purposes the Board's financial statements include all funds and account groups of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the board. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Board would consider an organization to be a component unit if:

1. The Board appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Board; or
2. The organization was fiscally dependent upon the Board; or
3. The nature of the relationship between the Board and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Board misleading.

The Board included no component units in the financial report.

**B. Basis of Presentation- Fund Accounting**

The accounts of the Board are maintained on the basis of fund and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the Board:

**1. Governmental Funds:**

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

**General Fund**

The General Fund is the general operating fund of the Board and is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Projects Funds**

The Capital Projects Funds are used to account for financial resources to be used for the acquisition of major equipment. The Capital Projects Fund was used to account for activity of the State School Net Program.

**2. Proprietary Funds:**

Proprietary Funds are used to account for the Board's on-going activities which are similar to those most often found in the private sector. The following are the Board's Proprietary Fund Types:

**Enterprise Fund**

The Enterprise Fund is used to account for operations (a) that are operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Internal Service Fund**

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis.

**3. Fiduciary Funds:**

Fiduciary Funds are used to account for the assets held by the Board in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**4. Account Groups:**

To make a clear distinction between fixed assets related to specific funds and those of the 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 Board, other than those accounted for in the Proprietary Fund.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**General Long Term Obligations Account Group**

This account group is established to account for all long-term obligations of the Board, except those accounted for in the Proprietary Fund.

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

**Measurement Focus:** Governmental Fund Types are accounted for on a spending, or "financial flow," measurement focus. Governmental Fund Type's operating statements represent increases and decreases in net current assets. The reported fund balances are considered measurable and available resources.

Proprietary Fund Types are accounted for on a cost of services, or "capital maintenance," measurement focus. Proprietary Fund Type's income statements represent increases and decreases in net total assets.

**Basis of Accounting:** The modified accrual basis of accounting is followed for Governmental Funds. Under this basis of accounting revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the Board is 60 days after fiscal year end. Revenue accrued at the end of the fiscal year included services, state and federal grants and other grants. Expenditures are recognized in the period in which the related fund liability is incurred, except interest on long-term obligations, which is recorded when due.

Revenue resulting from the exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty-days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Data**

**Budgetary Basis of Accounting:** The Board's budgetary process accounts for certain transactions on a basis other than GAAP. The major difference between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when encumbered, or paid in cash (budgetary), as opposed to when susceptible to accrual (GAAP).

The actual results of operations, compared to the final appropriation, which includes amendments to the original appropriation, for each fund type by expenditure function and revenue by source are presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Non-GAAP Budgetary Basis). The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

The Board adopts an annual budget for all governmental fund types. The specific timetable is as follows:

In June, the Treasurer submits to the Governing Board a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In August the Board adopts a permanent budget. By no later than August 31, the board-adopted budget is filed with the Ohio Department of Education using special form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Estimated Resources. The Budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Governing Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals.

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 Governing Board.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds are completed in the year within the amount of their legally authorized appropriation.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Appropriation amounts are as originally adopted, or as amended by the Governing Board through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**E. Encumbrances**

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

**F. Cash and Investments**

Cash received by the Board is deposited in one bank account. Monies for all funds are maintained in this account or are temporarily used to purchase short-term cash equivalent investments (maturity date within three months of the date acquired). See note C for a complete description of deposits and investments allowed by state statute.

Under existing Ohio statutes, all investment earnings accrue to the general fund. Investment revenue earned in fiscal 2001 totaled \$314,735.

For purposes of the Statement of Cash Flows (GASB Statement No.9) all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

During fiscal year 2001, investments were limited to donated stock. The Service Center holds only donated stock at year end. The stock is reported at fair value, which is based on quoted market prices.

**G. Inventory (Material and Supplies)**

Inventories are valued at the lower of cost (First-in, First-out) or market and are determined by physical count. Inventories are expended when purchased rather than when used.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets and Depreciation**

**General Fixed Assets Account Group**

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The Board follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than 3 years. No depreciation is recognized for assets in the General Fixed Assets Account Group. The Board does not possess any infrastructure.

**Proprietary Funds**

Property, plant and equipment reflected in the proprietary funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Building	30 to 50
Building Improvements	10 to 40
Improvements other than Buildings	10 to 20
Furniture, Fixtures and Equipment	05 to 20

There were no Proprietary Fixed Assets at year end.

**J. Interfund Transactions**

During the course of normal operations the Board has numerous transactions between funds.

The most significant include:

Reimbursements from one fund to another fund are treated as expenditures/expenses in the reimbursing fund and as a reduction in expenditures/expenses in the reimbursed fund.

Short-term interfund loans are reflected as interfund loans payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Compensated Absence**

GASB Statement #16 specifies that Compensated Absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's rights to receive compensation are attributable to service already rendered.
2. It is probable that the employer will compensate the employee for the benefits time off or cash payment.



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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Board's policies regarding compensated absences are determined by state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u> (261 day employees only)	<u>Non-Certificated</u> (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum.Vac.	100% of Daily Rate of Accum. Vac.
<u>Sick Leave</u>			
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	220	220	220
Vested	As Earned	As Earned	As Earned
Termination Entitlement At Retirement	25% of current salary & 25% of accum. Unused sick leave max 55 days X current daily rate. If retire when eligible	25% of Accum. unused sick leave max 55 days X current daily rate.	25% of Accum. unused sick leave max 55 days X current daily rate.
	OR		
	25% of Accum. unused sick leave max 55 days X current daily rate.		

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For governmental funds, amounts of compensated absences accrued in accordance with GASB Statement #16 that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of its respected governmental fund. Amounts of compensated absences that are not expected to be liquidated with expendable available financial resources are reported in the General Long Term Obligations Account Group. Accrued compensated absences in proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to the employee.

**L. Long-Term Obligations**

Long-term obligations are recognized as a liability of a governmental fund when due. For long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. The Board is not statutorily able to issue long term debt, and therefore long term debt is not issued. The Board accounted for capital lease transactions during the year, the future liability associated with these leases is reflected in the general long term obligation account group.

**M. Fund Equity**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and inventory. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purpose of those funds.

**N. Authoritative Sources**

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the District applies all GASB pronouncements and all FASB statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

**O. Memorandum Only – Total Columns**

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

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE C - EQUITY IN POOLED CASH AND INVESTMENTS**

The Board maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments". State statute requires the classification of monies held by the Board into three categories:

**Active Monies** - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Board. Such monies must by law be maintained either as cash in the Board treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**Inactive Monies** - Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

**Interim Monies** - 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 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 monies deposited with the institution.

State legislation permits interim monies to 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. Bonds and other obligations of the State of Ohio.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE C - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

- 5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in the division are made only through eligible institutions;
- 6. The State Treasurer's investment pool (STAR Ohio);
- 7. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 School district, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end the carrying amount of the districts deposits was \$6,512,490. The bank balance of deposits was \$7,799,760, which includes a payroll clearing account of \$309,438. Of the bank balance \$100,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

The Board's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured and registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its department or agent, but not in the Board's name.

Based on the above criteria, the Board's investments at June 30, 2001 are classified as follows:

	Category 1	Carrying Value / Fair Value
Stocks	<u>\$ 30,752</u>	<u>\$ 30,752</u>
Totals	<u>\$ 30,752</u>	<u>\$ 30,752</u>

The amount of \$30,752 was donated stock by a private individual.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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**NOTE C - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**NOTE D - INTERFUND / INTERGOVERNMENTAL RECEIVABLE AND PAYABLE**

Interfund balances at June 30, 2001 consisted of the following individual fund receivables and payables.

FUND	Interfund Loan <u>Receivable</u>	Interfund Loan <u>Payable</u>
General Fund	\$1,501,100	
Special Revenue Funds:		
Head Start – Hamilton County		\$ 100
Head Start - State		400,000
Head Start – Federal		100,000
Southwest Intervention		1,000,000
McAuliffe Program	_____	<u>1,000</u>
 Total	 <u>\$1,501,100</u>	 <u>\$1,501,100</u>

**NOTE E - FIXED ASSETS**

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	Balance <u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>End of Year</u>
Furniture/Equipment	<u>\$2,880,956</u>	<u>\$359,929</u>	<u>\$366,086</u>	<u>\$2,874,799</u>

There was no significant construction in progress as of June 30, 2001. There were no Proprietary Fund fixed assets at June 30, 2001.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE F - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2001, the Board accounted for capitalized leases for computer and other equipment. The lease agreements are accounted for on a GAAP basis as capital outlay expenditure in the general and special revenue funds with an offsetting amount reported as an "other financing source."

The leases meet 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 general purpose financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2001.

<u>FISCAL YEAR ENDING JUNE 30</u>	<u>GENERAL LONG-TERM OBLIGATIONS</u>
2002	\$ 6,610
2003	<u>2,796</u>
Total minimum lease payments	9,406
Less: amount representing interest	<u>( 382)</u>
Present value of minimum lease payments	<u>\$ 9,024</u>

**NOTE G - THE GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP**

During the year ended June 30, 2001 the following changes occurred in liabilities reported in the General Long Term Obligations Account Group. Compensated absences will be paid from the fund from which the employee is paid, capital leases will be paid from the fund which incurred the lease, and accrued wages and benefits will be paid from the fund from which the employee is paid.

	<u>July 1, 2000</u>	<u>Balance Additions</u>	<u>Balance Deductions</u>	<u>June 30,2001</u>
Compensated Absences:				
Sick Leave	\$2,179,969	\$ 68,183	\$ -0-	\$2,248,152
Capital Leases Payable	16,893	-0-	7,869	9,024
Accrued Wages & Benefits	<u>23,470</u>	<u>-0-</u>	<u>6,522</u>	<u>16,948</u>
Total	<u>\$2,220,332</u>	<u>\$ 68,183</u>	<u>\$14,391</u>	<u>\$2,274,124</u>

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE H - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 9% of their annual covered salary and the Hamilton County Educational Service Center is required to contribute 14%. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2001, 2000, 1999 were \$1,674,169, \$1,598,070, and \$1,558,186, respectively. \$25,422 representing the unpaid contribution not required to be paid until the 2002 fiscal year is recorded as a liability within the respective funds and the general long-term obligation account group.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3% of their annual covered salary and the Hamilton County Educational Service Center is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions to STRS for the years ending June 30, 2001, 2000, and 1999 were \$3,336,568, \$3,193,977, and \$3,281,827, respectively, equal to the required contributions for each year. \$267,122 represent the unpaid contribution not required to be paid until fiscal year 2002 and is recorded as a liability within the respective funds.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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**NOTE I - POST EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certificated 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 System based on authority granted by State statute. Both Systems are funded on a pay-as-you go basis.

For this fiscal year, employer contributions to fund health care benefits were 8.45% of covered payroll, an increase from 6.30% for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2000, were \$140,696,340 and the target level was \$211.0 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.

The State Teacher Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. The Health Care Reserve Allocation for the year ended June 30, 2001 will be 4.5% of covered payroll.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.149 billion at June 30, 2000. 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 fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.



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**NOTE J - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance / retained earnings 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 and disbursements. A reconciliation of the nature and amounts of the adjustments necessary to cover the GAAP financial statements of the budgetary basis follows:

Reconciliation of Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses From GAAP  
Basis to Budgetary Basis

Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
GAAP Basis	\$ 408,756	\$ 2,560,390	\$ (16,605)
Net Adjustment for Revenue Accruals	1,707,832	(977,575)	-0-
Net Adjustment for Expenditure Accruals	(1,605,310)	(1,278,236)	-0-
Adjustment for Encumbrances	<u>(148,864)</u>	<u>(1,563,473)</u>	<u>(3,500)</u>
Budgetary Basis	<u>\$ 536,809</u>	<u>(\$ 1,505,665)</u>	<u>(\$ 20,105)</u>

**NOTE K - JOINTLY GOVERNED ORGANIZATIONS**

The Hamilton/Clermont Cooperative Association (HCCA) is a governmental jointly governed organization consisting of 29 school districts. The jointly governed 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 districts. Each of the governments of these schools supports HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 29 school districts.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE L - CONTINGENT LIABILITIES**

**A. Grants**

The Board receives significant financial assistance from numerous federal, state and local 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Board at June 30, 2001.

**B. Litigation**

All potential claims against the Board, from current litigation, are covered by insurance. As of June 30, 2001, the District had no pending litigation or potential liability that would have a material effect on the financial statements.

**NOTE M - RISK MANAGEMENT**

The Hamilton County Educational Service 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. The Hamilton County Educational Service Center carries insurance coverage with the following companies.

<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	Nationwide Insurance Company
Property	The Cincinnati Insurance Company
General Liability	Nationwide Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$2,000,000 each occurrence	\$250 collision
Property	\$1,912,650 each occurrence	\$500 each loss
General Liability	\$2,000,000 each occurrence \$5,000,000 general aggregate	

The Hamilton County Educational Service Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE N – STATE 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 19, 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.

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

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

**NOTE O – CHANGES IN ACCOUNTING PRINCIPLES/CORRECTION OF FUND CLASSIFICATION**

For the fiscal year 2001, the Service Center has implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions," GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Transactions," an amendment of GASB No. 33, which changes how the Service Center reports certain types of revenues.

There was also a restatement to interfund balances in the Internal Service and Agency funds.

The effect of these changes on the excess of the revenues and other financial sources over expenditures and other financing uses, and fund balances, received earnings and total assets as of June 30, 2000 is as follows:

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**NOTE O – CHANGES IN ACCOUNTING PRINCIPLES (Continued)**

	<u>Special Revenue Funds</u>
Excess as previously reported	\$(327,035)
Restatement of Intergovernmental Receivable	<u>2,060,142</u>
Restated Amounts for the year ended June 30, 2000	<u>\$1,733,107</u>

	<u>Special Revenue Fund Balances</u>	<u>Internal Service Fund Retained Earnings</u>	<u>Agency Fund Total Assets</u>
Balance at June 30, 2000	\$213,877	\$0	\$912,325
Restatement for Intergovernmental Receivable as implemented GASB 34 and 36.	2,060,142	0	0
Restatement of Interfund Activity	<u>0</u>	<u>75,643</u>	<u>(75,643)</u>
Balance at July 1, 2000	<u>\$2,274,019</u>	<u>\$75,643</u>	<u>\$836,682</u>

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<b>Federal Grantor</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Care Food Program	N/A	10.558	\$232,190	\$45,051
<b>Total U.S. Department of Agriculture</b>			<u>232,190</u>	<u>45,051</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Title VI-B	6B-SI 00 P	84.027	61,089	122,717
	6B-SL 01 P	84.027	12,500	7,413
	6B-SI 01 P	84.027	<u>1,537,844</u>	<u>1,404,416</u>
Total Title VI-B			1,611,433	1,534,546
Special Education - Preschool Grant	PG-S1 99 P	84.173	4,715	
	PG-S1-00 P	84.173	4,531	11,976
	PG-SC 00 P	84.173	4,022	4,022
	PG-S7 00	84.173		1,784
	PG-S3 00 P	84.173	7,100	12,254
	PG-S3 01 P	84.173	74,550	62,602
	PG-S7 01	84.173	11,250	8,309
	PG-S1 01 P	84.173	<u>46,665</u>	<u>37,754</u>
Total Special Education - Preschool Grant			152,833	138,701
Total Special Education Cluster			1,764,266	1,673,247
ESEA Title 1	C1-ST 00 P	84.010	16,676	48,434
	C1-ST 01 P	84.010	169,000	112,055
	C1-SD 01	84.010	<u>37,490</u>	<u>5,921</u>
Total ESEA Title 1			223,166	166,410
Eisenhower Math Science	MS-S1 99 C	84.281		38,822
	MS-S2 99 C	84.281	29,854	100,029
	MS-S1 00	84.281	60,585	63,797
	MS-S2 00	84.281	225,776	174,324
	MS-S2 01	84.281	<u>85,175</u>	
Total Eisenhower Math Science			401,390	376,972

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

(Continued)

Goals 2000	G2-S9 00	84.276		5,563
	G2-SP 00	84.276		48,243
	G2-A2 00	84.276	12,730	12,730
	G2-S3 01	84.276	150,500	130,408
	G2-S9 01	84.276	175,588	82,271
Total Goals 2000			338,818	279,215
Handicapped Youth Transfer	PF-S1 98 P	84.158		800
Even Start	FV-S1 00	84.314	7,000	
Reading Experience	RN-A1-00	84.338		1,482
Total Department of Education			2,734,640	2,498,126
 <b><u>U.S. DEPARTMENT OF LABOR</u></b>				
Job Training Partnership Act:				
<i>Passed Through Hamilton County</i>				
	Title II-B Summer Youth Training	NA	98,563	91,784
<i>Passed Through Ohio Dept. of Mental Retardation</i>				
	Community Alternative Funding System	NA	12,717	10,122
Total U.S. Department of Labor			111,280	101,906
 <b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through Cincinnati-Hamilton County</i>				
<i>Community Action Agency</i>				
	Head Start	NA	93.600	3,423,733
				3,345,884
Total U.S. Department of Health and Human Services			3,423,733	3,345,884
<b>Totals</b>			<b>\$6,501,843</b>	<b>\$5,990,967</b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2001**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - MATCHING REQUIREMENTS**

Certain federal programs require that the Service Center contribute non-federal funds or in-kind contributions (matching requirements) to support the federally funded programs. The Service Center has complied with the matching requirements. The expenditure of non-federal funds is not included on the Schedule.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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

Hamilton County Educational Service Center  
Hamilton County  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231-1499

To the Board of Education:

We have audited the financial statements of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated December 19, 2001 wherein we noted the Service Center reclassified the Ohio Principal Center and AAESA funds. Also, the Service Center adopted Governmental Accounting Statement No. 33 and No. 36. 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 Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted 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 Service Center in a separate letter dated December 19, 2001.

Hamilton County Educational Service Center  
Hamilton County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of the Board of Education, management, 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 19, 2001



STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Hamilton County Educational Service Center  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231-1499

To the Board of Education:

**Compliance**

We have audited the compliance of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001. The Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service 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 Service 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 Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001.

**Internal Controls Over Compliance**

The management of the Service 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 Service 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 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 weaknesses 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 operations that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Education, management 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 19, 2001

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON 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 control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	<i>Title VI-B: Grants to States, CFDA #84.027; Special Education: Pre-School Grants, CFDA #84.173; Eisenhower Math/Science, CFDA #84.281</i>
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER**

**HAMILTON 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 15, 2002**