



**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

We have audited the accompanying general purpose financial statements of the Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Educational 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 Educational Service Center as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002, on our consideration of the Educational 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 Educational Service Center, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards 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, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

October 31, 2002

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Tri-County Educational Service Center

Wayne County

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2002

| | Governmental Fund Types | | Proprietary Fund Type |
|--|---------------------------|-------------------------|--------------------------|
| | General | Special Revenue | Internal Service |
| <i>Assets and Other Debit</i> | | | |
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,104,506 | \$520,366 | \$0 |
| Cash and Cash Equivalents with Fiscal Agent | 0 | 0 | 18,047 |
| Receivables: | | | |
| Accounts | 846 | 0 | 0 |
| Intergovernmental | 895,078 | 206,908 | 0 |
| Accrued Interest | 667 | 0 | 0 |
| Interfund | 80,000 | 0 | 0 |
| Fixed Assets | 0 | 0 | 0 |
| Other Debit | | | |
| Amount to be Provided from General Government Resources | 0 | 0 | 0 |
| <i>Total Assets and Other Debit</i> | <u>\$3,081,097</u> | <u>\$727,274</u> | <u>\$18,047</u> |
| <i>Liabilities, Fund Equity and Other Credits</i> | | | |
| Liabilities | | | |
| Accounts Payable | \$356,485 | \$73,102 | \$0 |
| Accrued Wages | 699,255 | 74,224 | 0 |
| Intergovernmental Payable | 111,773 | 12,471 | 0 |
| Compensated Absences Payable | 21,472 | 3,948 | 0 |
| Interfund Payable | 0 | 15,000 | 65,000 |
| Deferred Revenue | 0 | 164,776 | 0 |
| Claims Payable | 0 | 0 | 79,086 |
| <i>Total Liabilities</i> | <u>1,188,985</u> | <u>343,521</u> | <u>144,086</u> |
| Fund Equity and Other Credits | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 |
| Retained Earnings: | | | |
| Unreserved (Deficit) | 0 | 0 | (126,039) |
| Fund Balance: | | | |
| Reserved for Encumbrances | 580,239 | 238,405 | 0 |
| Unreserved, Undesignated | 1,311,873 | 145,348 | 0 |
| <i>Total Fund Equity and Other Credits</i> | <u>1,892,112</u> | <u>383,753</u> | <u>(126,039)</u> |
| <i>Total Liabilities, Fund Equity and Other Credits</i> | <u>\$3,081,097</u> | <u>\$727,274</u> | <u>\$18,047</u> |

See accompanying notes to the general purpose financial statements

| Account Groups | | Totals (Memorandum Only) |
|----------------------------|-------------------------------------|--------------------------------|
| General Fixed Assets | General Long-Term Obligations | |
| \$0 | \$0 | \$2,624,872 |
| 0 | 0 | 18,047 |
| 0 | 0 | 846 |
| 0 | 0 | 1,101,986 |
| 0 | 0 | 667 |
| 0 | 0 | 80,000 |
| 1,554,975 | 0 | 1,554,975 |
| 0 | 341,308 | 341,308 |
| <u>\$1,554,975</u> | <u>\$341,308</u> | <u>\$5,722,701</u> |
| \$0 | \$0 | \$429,587 |
| 0 | 0 | 773,479 |
| 0 | 27,935 | 152,179 |
| 0 | 313,373 | 338,793 |
| 0 | 0 | 80,000 |
| 0 | 0 | 164,776 |
| 0 | 0 | 79,086 |
| 0 | 341,308 | 2,017,900 |
| 1,554,975 | 0 | 1,554,975 |
| 0 | 0 | (126,039) |
| 0 | 0 | 818,644 |
| 0 | 0 | 1,457,221 |
| <u>1,554,975</u> | <u>0</u> | <u>3,704,801</u> |
| <u>\$1,554,975</u> | <u>\$341,308</u> | <u>\$5,722,701</u> |

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Tri-County Educational Service Center
Wayne County

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002*

| | Governmental Fund Types | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|--------------------------------|
| | General | Special Revenue | |
| Revenues | | | |
| Intergovernmental | \$3,776,578 | \$2,293,622 | \$6,070,200 |
| Customer Services | 5,031,887 | 0 | 5,031,887 |
| Tuition and Fees | 154,123 | 0 | 154,123 |
| Interest | 83,923 | 0 | 83,923 |
| Donations | 2,519 | 0 | 2,519 |
| Miscellaneous | 92,986 | 0 | 92,986 |
| <i>Total Revenues</i> | <u>9,142,016</u> | <u>2,293,622</u> | <u>11,435,638</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 327,968 | 89,509 | 417,477 |
| Special | 599,056 | 202,098 | 801,154 |
| Adult/Continuing | 70,911 | 0 | 70,911 |
| Other | 29,885 | 0 | 29,885 |
| Support Services: | | | |
| Pupils | 1,364,134 | 156,427 | 1,520,561 |
| Instructional Staff | 3,670,758 | 1,076,200 | 4,746,958 |
| Board of Education | 22,183 | 0 | 22,183 |
| Administration | 410,795 | 638,398 | 1,049,193 |
| Fiscal | 251,910 | 57,030 | 308,940 |
| Business | 199,409 | 0 | 199,409 |
| Operation and Maintenance of Plant | 197,577 | 69,330 | 266,907 |
| Central | 5,351 | 14,138 | 19,489 |
| Operation of Non-Instructional Services | 2,089,274 | 42,161 | 2,131,435 |
| Capital Outlay | 361,141 | 0 | 361,141 |
| <i>Total Expenditures</i> | <u>9,600,352</u> | <u>2,345,291</u> | <u>11,945,643</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(458,336)</u> | <u>(51,669)</u> | <u>(510,005)</u> |
| Other Financing Sources (Uses) | | | |
| Sale of Fixed Assets | 500 | 0 | 500 |
| Operating Transfers In | 0 | 1,500 | 1,500 |
| Operating Transfers Out | (1,500) | 0 | (1,500) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,000)</u> | <u>1,500</u> | <u>500</u> |
| <i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i> | <u>(459,336)</u> | <u>(50,169)</u> | <u>(509,505)</u> |
| <i>Fund Balances Beginning of Year</i> | <u>2,351,448</u> | <u>433,922</u> | <u>2,785,370</u> |
| <i>Fund Balances End of Year</i> | <u>\$1,892,112</u> | <u>\$383,753</u> | <u>\$2,275,865</u> |

See accompanying notes to the general purpose financial statements

**Tri-County Educational Service Center
Wayne County**

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002*

| | General Fund | | Variance Favorable (Unfavorable) |
|---|--------------------|--------------------|--|
| | Revised Budget | Actual | |
| Revenues | | | |
| Intergovernmental | \$3,751,739 | \$3,853,754 | \$102,015 |
| Customer Services | 5,359,392 | 4,434,533 | (924,859) |
| Tuition and Fees | 205,388 | 157,273 | (48,115) |
| Interest | 175,000 | 83,791 | (91,209) |
| Donations | 0 | 2,519 | 2,519 |
| Miscellaneous | 96,550 | 93,137 | (3,413) |
| <i>Total Revenues</i> | <u>9,588,069</u> | <u>8,625,007</u> | <u>(963,062)</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 356,280 | 330,252 | 26,028 |
| Special | 644,808 | 632,450 | 12,358 |
| Adult/Continuing | 136,569 | 71,611 | 64,958 |
| Other | 38,600 | 35,180 | 3,420 |
| Support Services: | | | |
| Pupils | 1,566,338 | 1,407,328 | 159,010 |
| Instructional Staff | 4,743,326 | 3,696,704 | 1,046,622 |
| Board of Education | 35,506 | 34,175 | 1,331 |
| Administration | 480,153 | 383,064 | 97,089 |
| Fiscal | 304,601 | 249,546 | 55,055 |
| Business | 286,057 | 211,278 | 74,779 |
| Operation and Maintenance of Plant | 295,841 | 220,619 | 75,222 |
| Pupil Transportation | 0 | 0 | 0 |
| Central | 10,085 | 5,651 | 4,434 |
| Operation of Non-Instructional Services | 2,458,440 | 2,262,867 | 195,573 |
| Capital Outlay | 882,000 | 361,142 | 520,858 |
| <i>Total Expenditures</i> | <u>12,238,604</u> | <u>9,901,867</u> | <u>2,336,737</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(2,650,535)</u> | <u>(1,276,860)</u> | <u>1,373,675</u> |
| Other Financing Sources (Uses) | | | |
| Sale of Fixed Assets | 0 | 500 | 500 |
| Operating Transfers In | 0 | 0 | 0 |
| Advances In | 0 | 4,160 | 4,160 |
| Advances Out | (80,000) | (80,000) | 0 |
| Operating Transfers Out | (1,500) | (1,500) | 0 |
| Other Financing Uses | (47,337) | 0 | 47,337 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(128,837)</u> | <u>(76,840)</u> | <u>51,997</u> |
| <i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i> | <u>(2,779,372)</u> | <u>(1,353,700)</u> | <u>1,425,672</u> |
| <i>Fund Balances at Beginning of Year</i> | 2,549,166 | 2,549,166 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | <u>254,649</u> | <u>254,649</u> | <u>0</u> |
| <i>Fund Balances (Deficit) at End of Year</i> | <u>\$24,443</u> | <u>\$1,450,115</u> | <u>\$1,425,672</u> |

See accompanying notes to the general purpose financial statements

| Special Revenue Funds | | | Totals (Memorandum Only) | | |
|-----------------------|------------------|----------------------------------|--------------------------|--------------------|----------------------------------|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$2,623,614 | \$2,276,913 | (\$346,701) | \$6,375,353 | \$6,130,667 | (\$244,686) |
| 0 | 0 | 0 | 5,359,392 | 4,434,533 | (924,859) |
| 0 | 0 | 0 | 205,388 | 157,273 | (48,115) |
| 0 | 0 | 0 | 175,000 | 83,791 | (91,209) |
| 0 | 0 | 0 | 0 | 2,519 | 2,519 |
| 0 | 0 | 0 | 96,550 | 93,137 | (3,413) |
| <u>2,623,614</u> | <u>2,276,913</u> | <u>(346,701)</u> | <u>12,211,683</u> | <u>10,901,920</u> | <u>(1,309,763)</u> |
| 189,908 | 79,105 | 110,803 | 546,188 | 409,357 | 136,831 |
| 276,940 | 252,170 | 24,770 | 921,748 | 884,620 | 37,128 |
| 0 | 0 | 0 | 136,569 | 71,611 | 64,958 |
| 0 | 0 | 0 | 38,600 | 35,180 | 3,420 |
| 217,789 | 170,081 | 47,708 | 1,784,127 | 1,577,409 | 206,718 |
| 1,364,081 | 1,214,659 | 149,422 | 6,107,407 | 4,911,363 | 1,196,044 |
| 0 | 0 | 0 | 35,506 | 34,175 | 1,331 |
| 783,096 | 672,034 | 111,062 | 1,263,249 | 1,055,098 | 208,151 |
| 58,129 | 57,008 | 1,121 | 362,730 | 306,554 | 56,176 |
| 0 | 0 | 0 | 286,057 | 211,278 | 74,779 |
| 81,821 | 71,812 | 10,009 | 377,662 | 292,431 | 85,231 |
| 3,068 | 0 | 3,068 | 3,068 | 0 | 3,068 |
| 13,441 | 13,441 | 0 | 23,526 | 19,092 | 4,434 |
| 50,974 | 46,024 | 4,950 | 2,509,414 | 2,308,891 | 200,523 |
| 0 | 0 | 0 | 882,000 | 361,142 | 520,858 |
| <u>3,039,247</u> | <u>2,576,334</u> | <u>462,913</u> | <u>15,277,851</u> | <u>12,478,201</u> | <u>2,799,650</u> |
| <u>(415,633)</u> | <u>(299,421)</u> | <u>116,212</u> | <u>(3,066,168)</u> | <u>(1,576,281)</u> | <u>1,489,887</u> |
| 0 | 0 | 0 | 0 | 500 | 500 |
| 1,500 | 1,500 | 0 | 1,500 | 1,500 | 0 |
| 0 | 15,000 | 15,000 | 0 | 19,160 | 19,160 |
| (4,160) | (4,160) | 0 | (84,160) | (84,160) | 0 |
| 0 | 0 | 0 | (1,500) | (1,500) | 0 |
| 0 | 0 | 0 | (47,337) | 0 | 47,337 |
| <u>(2,660)</u> | <u>12,340</u> | <u>15,000</u> | <u>(131,497)</u> | <u>(64,500)</u> | <u>66,997</u> |
| (418,293) | (287,081) | 131,212 | (3,197,665) | (1,640,781) | 1,556,884 |
| 239,390 | 239,390 | 0 | 2,788,556 | 2,788,556 | 0 |
| 290,958 | 290,958 | 0 | 545,607 | 545,607 | 0 |
| <u>\$112,055</u> | <u>\$243,267</u> | <u>\$131,212</u> | <u>\$136,498</u> | <u>\$1,693,382</u> | <u>\$1,556,884</u> |

Tri-County Educational Service Center
Wayne County
*Statement of Revenues,
Expenses and Changes in Retained Earnings*
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

| | Internal Service |
|---|------------------|
| Operating Revenues | |
| Charges for Services | \$1,130,238 |
| Other | 385,509 |
| <i>Total Operating Revenues</i> | 1,515,747 |
| Operating Expenses | |
| Purchased Services | 306,202 |
| Claims | 563,403 |
| <i>Total Operating Expenses</i> | 869,605 |
| <i>Net Income</i> | 646,142 |
| <i>Retained Earnings (Deficit) at Beginning of Year</i> | (772,181) |
| <i>Retained Earnings (Deficit) at End of Year</i> | (\$126,039) |

Tri-County Educational Service Center
Wayne County
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

| | Internal Service Fund | | Variance Favorable (Unfavorable) |
|--|-----------------------|------------------|--|
| | Revised Budget | Actual | |
| Revenues | | | |
| Charges for Services | \$1,150,000 | \$1,054,304 | (\$95,696) |
| Other | 350,000 | 384,955 | 34,955 |
| <i>Total Revenues</i> | <u>1,500,000</u> | <u>1,439,259</u> | <u>(60,741)</u> |
| Expenses | | | |
| Purchased Services | <u>1,129,233</u> | <u>1,060,301</u> | <u>68,932</u> |
| <i>Total Expenses</i> | <u>1,129,233</u> | <u>1,060,301</u> | <u>68,932</u> |
| <i>Excess of Revenues Over Expenses</i> | <u>370,767</u> | <u>378,958</u> | <u>8,191</u> |
| <i>Non-Operating Revenues</i> | | | |
| Advances In | <u>65,000</u> | <u>65,000</u> | <u>0</u> |
| <i>Total Non-Operating Revenues</i> | <u>65,000</u> | <u>65,000</u> | <u>0</u> |
| <i>Excess of Revenues and Non-Operating Revenues Over Expenses</i> | 435,767 | 443,958 | 8,191 |
| <i>Fund Equity at Beginning of Year</i> | <u>(435,767)</u> | <u>(435,767)</u> | <u>0</u> |
| <i>Fund Equity at End of Year</i> | <u>\$0</u> | <u>\$8,191</u> | <u>\$8,191</u> |

See accompanying notes to the general purpose financial statements

Tri-County Educational Service Center
Wayne County
Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2002

| | <u>Internal Service</u> |
|--|-------------------------|
| INCREASE IN CASH AND CASH EQUIVALENTS | |
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$1,130,238 |
| Cash Received from Other Operating Sources | 385,509 |
| Cash Payments to Suppliers for Goods and Services | (306,202) |
| Cash Payments for Claims | (718,897) |
| | <u>490,648</u> |
| <i>Net Cash Provided by Operating Activities</i> | |
| Cash Flows from Noncapital Financing Activity | |
| Advances In | 65,000 |
| Advances Out | (537,601) |
| | <u>(472,601)</u> |
| <i>Net Cash Used for Noncapital Financing Activities</i> | |
| <i>Net Increase in Cash and Cash Equivalents</i> | 18,047 |
| <i>Cash and Cash Equivalents at Beginning of Year</i> | <u>0</u> |
| <i>Cash and Cash Equivalents at End of Year</i> | <u>\$18,047</u> |
| Reconciliation of Net Income to Net Cash Provided by Operating Activities | |
| <i>Net Income</i> | <u>\$646,142</u> |
| <i>Adjustments:</i> | |
| Changes in Liabilities: | |
| Decrease in Claims Payable | (155,494) |
| | <u>(155,494)</u> |
| <i>Total Adjustments</i> | |
| <i>Net Cash Provided by Operating Activities</i> | <u>\$490,648</u> |

See accompanying notes to the general purpose financial statements

Tri-County Educational Service Center
Wayne County

Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1 - Description of the Educational Service Center

The Tri-County Educational Service Center (Educational Service 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 Educational Service Center is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The Educational Service Center operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne and Ashland Counties.

The Board controls the Educational Service Center's instructional support services staffed by 84 noncertificated and 106 certificated teaching personnel who provide services to 30,512 students.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all funds for providing necessary services to local school districts.

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

The Educational Service Center is associated with certain organizations which are defined as Jointly Governed Organizations and Public Entity Risk Pools. The Educational Service Center is also fiscal agent for the Lincoln Way Special Education Regional Resource Center. These organizations are presented in Notes 8, 9 and 10 to the general purpose financial statements. These organizations include the Midland Council of Governments Tri-County Computer Service Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio Mid-Eastern Regional Education Service Agency and the Lincoln Way Special Education Regional Resource Center.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories as governmental and proprietary.

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

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

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

Proprietary Fund Type: The proprietary fund is used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The following is the proprietary fund type:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

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

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting

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

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital(if applicable) and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is 60 days after year end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized when they are earned and become measurable; expenses are recognized when they are incurred, if measurable. Unbilled service charges are recognized as revenue at year end.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Budgetary Data

The budgetary process is prescribed by section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

Estimated Revenues:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balance from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases and decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Board.

Appropriations:

The annual appropriation resolution must be legally enacted by the Educational Service Center's Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Educational Service Center's Board. The Board 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 Board of Education. The statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

Lapsing of Appropriations:

At the close of each 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.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The Educational Service Center is self insured through the Ohio Mid-Eastern Regional Education Service Agency (OMERESA) claims servicing pool. OMERESA is fiscal agent for the pool and the portion of the cash balance held by OMERESA and attributable to the Educational Service Center is presented as "Cash and Cash Equivalents with Fiscal Agent" on the combined balance sheet.

The Educational Service Center invested funds in the State Treasury Asset Reserve ("STAR Ohio") during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2002, the general fund received interest earned in the amount of \$83,923.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. There was no significant inventory balance at June 30, 2002.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

G. Interfund Assets and Liabilities

Short-term interfund loans are classified as "interfund receivable/payables" on the combined balance sheet.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. In general, payments made more than 60 days after year end are considered not to have been made with current available financial resources.

J. Interfund Transactions

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

K. Fund Balance Reserves

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

L. Estimates

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

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Memorandum Only - Total Columns

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

Note 3 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

Excess of Revenues and Other Financing Sources
Under Expenditures and Other Financing Uses
All Governmental Fund Types

| | <i>General</i> | <i>Special Revenue</i> |
|---|----------------|------------------------|
| <i>GAAP Basis</i> | (\$459,336) | (\$50,169) |
| Net Adjustment for Revenue Accruals | (517,009) | (16,709) |
| Advances In | 4,160 | 15,000 |
| Advances Out | (80,000) | (4,160) |
| Net Adjustment for Expenditure Accruals | 352,876 | 46,056 |
| Adjustment for Encumbrances | (654,391) | (277,099) |
| <i>Budget Basis</i> | (\$1,353,700) | (\$287,081) |

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 3 - Budgetary Basis of Accounting (Continued)

*Net Income/Excess of Revenues
and Non-Operating Revenues Over Expenses
Proprietary Fund Type*

| | <i>Internal Service</i> |
|-------------------------------------|-----------------------------|
| <i>GAAP Basis</i> | \$646,142 |
| Advances In | 65,000 |
| Net Adjustment for Expense Accruals | (155,494) |
| Non-Cash Activities | (111,690) |
| <i>Budget Basis</i> | \$443,958 |

Note 4 - Fund Deficit

The self-insurance internal service fund had a deficit retained earnings of \$126,039. The Educational Service Center is currently addressing the deficit retained earnings to determine what to do to generate a positive balance.

Note 5 - Deposits and Investments

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

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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 moneys deposited with the institution.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 5 - Deposits and Investments (Continued)

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations 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 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. 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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made 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.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 5 - Deposits and Investments (Continued)

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$462,531 and the bank balance was \$1,003,291. Of the bank balance, \$103,291 was covered by federal depository insurance, \$900,000 was covered by collateral held in the pledging bank's trust department in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of custodial credit risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center invests in STAR Ohio which is not classified by degree of custodial credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the STAR Ohio investment at June 30, 2002 was \$1,745,388. The Educational Service Center also maintains repurchase agreements, which are a category 3 investment.

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | <i>Cash and Cash Equivalents/Deposits</i> | <i>Investments</i> |
|--|---|--------------------|
| | | |
| <i>GASB Statement No. 9</i> | \$2,642,919 | \$0 |
| Investments which are part of the cash management pool: | | |
| STAR Ohio | (1,745,388) | 1,745,388 |
| Repurchase Agreements | (435,000) | 435,000 |
| <i>GASB Statement No. 3</i> | \$462,531 | \$2,180,388 |

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 6 - Receivables

Receivables at June 30, 2002, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

| | <i>Amounts</i> |
|--|-----------------|
| <i>General Fund:</i> | |
| Excess Cost Reimbursement | \$616,841 |
| Customer Services | 264,694 |
| Medicaid | 13,543 |
| <i>Total General Fund</i> | 895,078 |
| <i>Special Revenue Funds:</i> | |
| Other Grants | 60,112 |
| Alternative School | 57,657 |
| Title VI-B | 21,000 |
| Miscellaneous State Grant | 10,000 |
| Title I | 13,867 |
| Public School Preschool | 44,272 |
| <i>Total Special Revenue Funds</i> | 206,908 |
| <i>Total Intergovernmental Receivables</i> | \$1,101,986 |

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$47.02 for each of the 30,512 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$47.02 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 8 - Jointly Governed Organizations

The Midland Council of Governments Tri-County Computer Services Association (Midland) is a jointly governed organization which operates under the direction of a Board consisting of one representative from each of the participating Educational Service Centers' elected school boards. It has its own budgeting and taxing authority. To obtain financial information, write to the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 9 - Public Entity Risk Pools

A. Insurance Purchasing Pool

The Educational Service Center participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan's business 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 Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan.

B. Claims Servicing Pool

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency (OMERESA) claims servicing pool. OMERESA's claims servicing pool business and affairs are conducted by a nine member Board of Directors. Each member pays a monthly premium based on their claims history. All participating members retain their risk and OMERESA acts as the claims servicing agent.

Note 10 - Fiscal Agent

The Educational Service Center is fiscal agent for the Lincoln Way Special Education Service Center (SERRC). The SERRC was created by the Ohio Department of Education to serve school districts in Stark, Wayne, and Columbiana Counties. The SERRC was formed to assist local schools with the initiation and expansion of programs and services for handicapped children through joint planning and cooperation, as well as, to provide resources designed to improve the quality of instruction for handicapped children through teacher training. The activity of the SERRC is accounted for in the Educational Service Center's Title VIB, Preschool and Early Childhood Development Special Revenue Funds.

Note 11 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2002 follows:

| | <i>Balance</i> <i>July 1, 2001</i> | <i>Additions</i> | <i>Deletions</i> | <i>Balance</i> <i>June 30, 2002</i> |
|--|---------------------------------------|------------------|------------------|--|
| Buildings, Land & Land Improvements | \$0 | \$436,985 | \$0 | \$436,985 |
| Furniture and Fixtures | 999,606 | 118,384 | 0 | 1,117,990 |
| <i>Total</i> | <u>\$999,606</u> | <u>\$555,369</u> | <u>\$0</u> | <u>\$1,554,975</u> |

There was no significant construction in progress at June 30, 2002.

Tri-County Educational Service Center
Wayne County

Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 12 - Risk Management

The 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. During fiscal year 2002, the Educational Service Center contracted with the Nationwide Insurance Company for property and general liability insurance.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by State Farm Insurance Company and hold a \$100 deductible for comprehensive and collision. Automobile liability has a \$100,000 per occurrence/\$300,000 per aggregate bodily injury coverage, \$50,000 property damage coverage, and \$25,000 medical payments coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 9). The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health and dental insurances are available to most employees through a self-insurance internal service fund. The claims liability of \$79,086 reported in the internal service fund at June 30, 2002 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years were as follows:

| | <i>Balance at Beginning of Year</i> | <i>Current Year Claims</i> | <i>Claims Payments</i> | <i>Balance at End of Year</i> |
|------|---|--------------------------------|----------------------------|-----------------------------------|
| 2001 | \$168,473 | \$1,230,246 | \$1,164,139 | \$234,580 |
| 2002 | 234,580 | 563,403 | 718,897 | 79,086 |

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 13 - Defined Benefit Pension Plan

A. School Employees Retirement System

The 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 2002, 5.46 percent was the portion used to fund pension obligations, for 2001, 4.2 percent was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2002, 2001, and 2000 were \$79,534, \$73,377, and \$78,706, respectively, equal to the required contributions for each year. 100 percent has been contributed for fiscal year 2002, 2001 and 2000.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system 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 publicly available general purpose 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 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2002, 2001, and 2000 were \$373,791, \$268,618, and \$206,049, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions has been contributed for fiscal years 2002, 2001 and 2000.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2002, two of the governing board members has elected social security. The board's liability is 6.2 percent of the wages paid.

Tri-County Educational Service Center
Wayne County

Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 14 - Post Employment Benefits

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$177,059 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3,256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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. The surcharge rate 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. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$152,335, during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Note 15 - Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn 10 to 20 days of vacation per year, depending upon length of service and number of days worked per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 15 - Employee Benefits (Continued)

B. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to all employees through Medical Life, Inc.; coverage amount is \$38,000 per employee.

Note 16 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2002, is as follows:

| | <i>Principal Outstanding July 1, 2001</i> | <i>Additions</i> | <i>Deductions</i> | <i>Principal Outstanding June 30, 2002</i> |
|------------------------------------|---|------------------|-------------------|--|
| Intergovernmental Payable | \$24,149 | \$27,935 | \$24,149 | \$27,935 |
| Compensated Absences | 282,940 | 30,433 | 0 | 313,373 |
| <i>Total Long-Term Obligations</i> | <u>\$307,089</u> | <u>\$58,368</u> | <u>\$24,149</u> | <u>\$341,308</u> |

Compensated absences and intergovernmental payable, which represents contractually required pension contributions paid outside the available period, will be paid from the fund from which the employees' salaries are paid.

Note 17 - Interfund Transactions

Interfund balances at June 30, 2002, consist of a receivable of \$80,000 for the general fund and a payable of \$65,000 for the self-insurance internal service fund and \$15,000 for the other grants special revenue fund.

Note 18 - Contingencies

A. Grants

The Educational Service 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 Educational Service Center at June 30, 2002.

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Tri-County Educational Service Center
Wayne County
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Note 19 - School Funding Issue

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. This includes 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. Parity aid must also be fully funded no later than the beginning of fiscal year 2004 rather the fiscal year 2006.

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

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. In November 2001, the Court granted this request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

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**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

| Federal Grantor/ Pass Through Grantor/ Program Title | Federal CFDA Number | Pass Through Entity Number | Receipts | Expenditures |
|--|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | |
| Special Education Cluster: | | | | |
| Special Education Grants to States | 84.027 | 6BSI-2001-P 6BSI-2002-P 6BSA-2002-P | \$ 85,000 981,925 9,000 | \$ 252,519 731,478 2,156 |
| Total Special Education Grants to States | | | <u>1,075,925</u> | <u>986,153</u> |
| Special Education - Preschool Grants | 84.173 | PGS1-2002-P PGS3-2002-P PGS7-2002 PGSC-2001-P PGSC-2001-P PGSC-2001-P | 143,569 74,550 11,250 16,033 | 136,116 55,621 8,846 3,799 15,634 16,033 |
| Total Special Education - Preschool Grants | | | <u>229,369</u> | <u>236,049</u> |
| Total Special Education Cluster | | | 1,305,294 | 1,222,202 |
| Eisenhower Professional Development State Grants | 84.281 | MSS1-2000 | (11,624) | 21,015 |
| Title I Grants to Local Educational Agencies | 84.010 | C1ST-2002P | 219,332 | 265,664 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DR-S1-2001 | | 4,012 |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | G2S9-2001 G2U1-2001 G2S3-2001 G2S3-2001 | 20,000 70,301 27,806 | 1,700 70,301 12,730 27,806 |
| Total Goals 2000 - State and Local Education Systemic Improvement Grants | | | <u>90,301</u> | <u>112,537</u> |
| <i>Passed through the Ohio Department of Health</i> | | | | |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | N/A | <u>32,408</u> | <u>44,524</u> |
| Total U.S. Department of Education | | | 1,635,711 | 1,669,954 |
| <u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u> | | | | |
| <i>Passed through the State Library of Ohio</i> | | | | |
| State Library Program | 45.310 | N/A | 111,802 | 106,154 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| <i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i> | | | | |
| Medical Assistance Program (CAFS) | 93.778 | N/A | <u>672,927</u> | <u>672,927</u> |
| Totals | | | <u>\$ 2,420,440</u> | <u>\$ 2,449,035</u> |

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

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The Educational Service Center passes-through certain Federal assistance received from the Ohio Department of Mental Retardation and Developmental Disabilities to other governments or not-for-profit agencies (subrecipients). As described in Note A, the Educational Service Center records expenditures of Federal awards to subrecipients when paid in cash.



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**

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

We have audited the financial statements of the Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. 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 Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated October 31, 2002.

Internal Control Over Financial Reporting

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

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

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 Educational Service Center in a separate letter dated October 31, 2002.

This report is intended for the information and use of management, the Governing Board, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

October 31, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Compliance

We have audited the compliance of the Tri-County Educational Service Center, Wayne County, Ohio, (the Educational 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 year ended June 30, 2002. The Educational 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 its major federal programs are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational 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 Educational 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 Educational Service Center's compliance with those requirements.

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Educational 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 Educational 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 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 Governing Board, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 31, 2002

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | CFDA #93.778 – Medical Assistance Program (CAFS) CFDA #45.310 – State Library Program |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | 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

TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
GAGAS
JUNE 30, 2002

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|--|-------------------------|---|
| 2001-10985-001 | Severance payment amount was calculated incorrectly for an employee of the Educational Service Center. | Yes | Finding No Longer Valid. |



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TRI-COUNTY EDUCATIONAL SERVICE CENTER

WAYNE 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 23, 2002**