ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

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STATE OF OHIO
OFFICE OF THE AUDITOR
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REPORT OF INDEPENDENT ACCOUNTANTS

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Ashtabula County Educational Service Center, as of and for the year ended June 30, 1999, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 1999 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general-purpose financial statements. Such information has been subjected 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
Jim Petro
Auditor of State

December 29, 1999

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types		Proprietary Fund Type		Fiduciary Fund	Account Groups		Totals 1999
	General	Special Revenue	Enterprise	Internal Service	Agency	General Fixed Assets	General Long Term	(Memorandum (Only)
Assets and Other Debits:								
Equity in Pooled Cash and Investments	$2,192,269	$376,010	$14,080	$114,405	$328,151			$ 3,024,915
Interfund Receivables	9,199							9,199
Due from Other Funds					61,486			61,486
Intergovernmental Receivables	23,165	11,194	154					34,513
Accounts Receivable	53,426			1,740				55,166
Inventory	10,153							10,153
Plant, Property & Equipment						$574,328		574,328
Amount to be Provided to GLTDAG							$295,096	295,096
Total Assets and Other Debits	**$2,288,212**	**$387,204**	**$14,234**	**$116,145**	**$389,637**	**$574,328**	**$295,096**	**$4,064,856**
Liabilities:								
Interfund Payable		$9,199						$9,199
Due to Other Funds	$56,077	2,456	$2,953					61,486
Intergovernmental Payable	3,269	109			$389,637		$19,353	412,368
Accounts Payable	23,552	15,032		$2,558				41,142
Accrued Wages & Benefits	339,498	12,746						352,244
Compensated Absences Payable	30,925	2,146					275,743	308,814
Total Liabilities	453,321	41,688	2,953	2,558	389,637	0	295,096	1,185,253
Investment In General Fixed Assets						574,328		574,328
Retained Earnings			11,281	113,587				124,868
Fund Balances:								
Reserved for Inventory	10,153							10,153
Reserved for Encumbrances	121,787	305,864						427,651
Unreserved Fund Balance	1,702,951	39,652						1,742,603
Total Fund Equity	1,834,891	345,516	11,281	113,587	0	574,328	0	2,879,603
Total Liabilities, Fund Equity, and Other Credits	**$2,288,212**	**$387,204**	**$14,234**	**$116,145**	**$389,637**	**$574,328**	**$295,096**	**$4,064,856**

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

COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES Ifund IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Tuition	$ 181,848	$20,555	$202,403
Transportation Fees	35,615		35,615
Earnings on Investments	140,083		140,083
Miscellaneous	368,246	34,506	402,752
Revenue from State Sources			
Unrestricted Grants-in-Aid	3,266,057		3,266,057
Restricted Grants-in-Aid		173,994	173,994
Revenue from Federal Sources			
Unrestricted Grants-in-Aid	47,646		47,646
Restricted Grants-in-Aid		594,315	594,315
Total Revenue	4,039,495	823,370	4,862,865
EXPENDITURES:			
Current:			
Instruction			
Regular Instruction	93,544	38,407	131,951
Special Instruction	1,159,316	59,677	1,218,993
Adult/Continuing Instruction		101,740	101,740
Supporting Services			
Supporting Services-Pupils	713,722	104,825	818,547
Supporting Services-Instructional Staff	1,221,388	341,159	1,562,547
Supporting Services-Board of Education	18,323		18,323
Supporting Services-Administration	557,186	1,444	558,630
Supporting Services-Fiscal Services	138,331	1,944	140,275
Supporting Services-Pupil Transportation	71,222		71,222
Total Expenditures	3,973,032	649,196	4,622,228
Excess (Deficiency) of Revenues Over (Under) Expenditures	66,463	174,174	240,637
Other Financing Sources and Uses:			
Refund of Prior Years Expense		2	2
Net Other Financing Sources	0	2	2
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursement and Other Uses	66,463	174,176	240,639
Increase in Inventory	2,189		2,189
Beginning Fund Balance	1,766,239	171,340	1,937,579
Ending Fund Balance	**$1,834,891**	**$345,516**	**$2,180,407**

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition	$599,208	$599,208	$0	$21,005	$21,040	$35
Transportation Fees	46,109	46,109	0			
Earnings on Investment	131,883	140,083	8,200			
Miscellaneous	452,489	452,529	40	34,506	34,506	0
State Unrestricted Grants-in-Aid	3,266,057	3,266,057	0			
State Restricted Grants-in-Aid				173,805	173,805	0
Federal Unrestricted Grants-in-Aid	37,770	37,770	0			
Federal Restricted Grants-in-Aid				594,315	594,315	0
Total Revenue	4,533,516	4,541,756	8,240	823,631	823,666	35
Expenditures:						
Regular Instruction	113,524	90,964	22,560	38,407	38,407	0
Special Instruction	1,395,288	1,174,586	220,702	141,363	137,540	3,823
Vocational Instruction	28,541	49	28,492			
Adult/Continuing Instruction				114,725	105,521	9,204
Support Services-Pupils	842,610	697,084	145,526	330,179	325,040	5,139
Support Services-Instructional Staff	1,679,185	1,327,376	351,809	460,624	426,761	33,863
Support Services-Board of Education	38,530	22,546	15,984			
Support Services-Administration	1,524,134	573,634	950,500	1,769	1,444	325
Fiscal Services	166,718	140,844	25,874	8,657	8,457	200
Support Services-Transportation	149,448	92,208	57,240			
Total Expenditures	5,937,978	4,119,291	1,818,687	1,095,724	1,043,170	52,554
Excess of Revenue Over (Under) Expenditures	(1,404,462)	422,465	1,826,927	(272,093)	(219,504)	52,589
Other Financing Sources (Uses):						
Advances-In	0	226,951	226,951	0	9,199	9,199
Advances-Out	0	(9,199)	(9,199)	0	(226,951)	(226,951)
Refund of Prior Years Expense	0	0	0	2	2	0
Total Other Sources (Uses)	0	217,752	217,752	2	(217,750)	(217,752)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,404,462)	640,217	2,044,679	(272,091)	(437,254)	(165,163)
Beginning Fund Balance	1,319,195	1,319,195	0	208,080	208,080	0
Prior Year Carry Over Encumbrances	85,266	85,266	0	281,764	281,764	0
Ending Fund (Deficit) Balance	**($1)**	**$2,044,678**	**$2,044,679**	**$217,753**	**$52,590**	**($165,163)**

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BASIS)
ALL GOVERNMENTAL FUND TYPES - Continued
FOR THE YEAR ENDED JUNE 30, 1999

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tuition	$620,213	$620,248	$35
Transportation Fees	46,109	46,109	0
Earnings on Investment	131,883	140,083	8,200
Miscellaneous	486,995	487,035	40
State Unrestricted Grants-in-Aid	3,266,057	3,266,057	0
State Restricted Grants-in-Aid	173,805	173,805	0
Federal Unrestricted Grants-in-Aid	37,770	37,770	0
Federal Restricted Grants-in-Aid	594,315	594,315	0
Total Revenue	5,357,147	5,365,422	8,275
Expenditures:			
Regular Instruction	151,931	129,371	22,560
Special Instruction	1,536,651	1,312,126	224,525
Vocational Instruction	28,541	49	28,492
Adult/Continuing Instruction	114,725	105,521	9,204
Support Services-Pupils	1,172,789	1,022,124	150,665
Support Services-Instructional Staff	2,139,809	1,754,137	385,672
Support Services-Board of Education	38,530	22,546	15,984
Support Services-Administration	1,525,903	575,078	950,825
Fiscal Services	175,375	149,301	26,074
Support Services-Transportation	149,448	92,208	57,240
Total Expenditures	7,033,702	5,162,461	1,871,241
Excess of Revenue Over (Under) Expenditures	(1,676,555)	202,961	1,879,516
Other Financing Sources (Uses):			
Advances-In	0	236,150	236,150
Advances-Out	0	(236,150)	(236,150)
Refund of Prior Years Expense	2	2	0
Total Other Sources (Uses)	2	2	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,676,553)	202,963	1,879,516
Beginning Fund Balance	1,527,275	1,527,275	0
Prior Year Carry Over Encumbrances	367,030	367,030	0
Ending Fund (Deficit) Balance	**$217,752**	**$2,097,268**	**$1,879,516**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Types		
	Enterprise Funds	Internal Service Funds	Totals (Memorandum) (Only)
Operating Revenues:			
Tuition	$23,313		$23,313
Miscellaneous		$82,883	82,883
Total Operating Revenue	23,313	82,883	106,196
Operating Expenses:			
Personal Services - Salary	10,116	18,254	28,370
Employee Benefits	7,489	7,767	15,256
Purchased Services	0	15,903	15,903
Supplies and Materials	3,406	7,356	10,762
Other Objects	7		7
Total Operating Expenses	21,018	49,280	70,298
Operating Income	2,295	33,603	35,898
Beginning Retained Earnings	8,986	79,984	88,970
Retained Earnings at End of Year	**$11,281**	**$113,587**	**$124,868**

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Types		
	Enterprise Funds	**Internal Service Funds**	**Totals (Memorandum) (Only)**
Cash Flows from Operating Activities			
Operating Gain	$2,295	$33,604	$35,899
Adjustment to Reconcile Operating Gain (Loss) To Net Cash used in Operating Activities:			
Net (Increase) Decrease in Assets:			
Accounts Receivable		(1,740)	(1,740)
Intergovernmental Receivable	(147)		(147)
Net Increases (Decreases) in Liabilities:			
Accounts Payable		2,416	2,416
Due to Other Funds	2,953		2,953
Total Adjustments	2,806	676	3,482
Net Cash Used in Operating Activities	5,101	34,280	39,381
Net Increase (Decrease) in Cash & Cash Equivalents	5,101	34,280	39,381
Cash and Cash Equivalents at Beginning of Year	8,979	80,125	89,104
Cash and Cash Equivalents at End of Year	$14,080	$114,405	$128,485

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

1. DESCRIPTION

The Ashtabula County Educational Service Center (the 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 Service Center is a County School District as defined by Section 3313 of the Ohio Revised Code.

The Service Center is governed by a five member Governing Board elected by the citizens of Ashtabula County and is responsible for the provision of special education and support services to public school districts located in the County. The Service Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Service Center serves four local school districts: Buckeye Local, Grand Valley Local, Jefferson Area Local and Pymatuning Valley Local as provided by S.B. 140, O.R.C. Section 3313.483. Ashtabula Area City School District and Conneaut Area City School District are served through city/county cooperative agreements in accordance with S.B. 140 and O.R.C. Section 3313.843.

The Service Center is located in Jefferson, Ohio and is staffed by 55 certified and 49 non-certified personnel. The Ashtabula County Commissioners, as required by State statute, provide the offices for the use of the Service Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The accompanying general-purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Service Center is financially accountable This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

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

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exits if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Service Center over which the Service Center is financially accountable.

B. *Fund Accounting*

The 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 government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, 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.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund

This fund 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 Service Center for any purpose provided it is expended or transferred according to the bylaws of the Service Center and the laws of the State of Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

1. Proprietary Fund Types:

Proprietary funds are used to account for the Service Center's ongoing activities which are *similar to those found in the private sector. The following are the proprietary fund types:*

Enterprise Funds

These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (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 where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds

These funds account for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost reimbursement basis.

2. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Agency Funds

These funds are purely custodial and thus do not involve measurement of results of operations.

3. Account Groups:

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group

This account group is used to account for all of the Service Center's fixed assets other than those accounted for in the Proprietary funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Long-Term Debt Account Group

This account group is used to account for all of the Service Center's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus and Basis of Accounting

The modified accrual basis of accounting is followed for Governmental and Expendable Trust Funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. Under the basis of accounting:

1. Only current assets and current liabilities are generally included on their balance sheets.

2. Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

3. Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the Service Center is 60 days after year end.

4. Expenditures are recognized in the period in which the fund liability is incurred with the following exceptions: general long term obligation principal and interest are reported only when due; the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The 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. Pursuant to GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" the Service Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Agency fund assets and liabilities are recognized on the modified accrual basis of accounting.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Board of Education. All governmental and proprietary fund types are subject to annual expenditures budgets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education no later than September 4.

Appropriations

An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the June regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

The Service Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

b. Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);

c. Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and

d. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP).

E. Encumbrances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

Cash received by the Service Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Monies for all funds are maintained in this account or temporarily used to purchase short term cash equivalent investments which are stated at cost. State statutes authorize the Service Center to invest in obligations of, or guaranteed by, U.S. Treasury, agencies, and instrumentalities, repurchase agreements, bonds and other obligations of the State of Ohio, and the State Treasurer's Asset Reserve of Ohio (STAR Ohio). STAR Ohio is a state investment pool for the exclusive use of political subdivisions within the State of Ohio. During fiscal year 1999 investments were limited to certificates of deposit and Star Ohio. For the Service Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 1999 totaled $140,083.

G. Taxes

A county educational service center does not itself levy taxes. However, a county educational service center governing board may serve as the taxing authority for a county school financing district as authorized by the Ohio Revised Code 135.01 (D). The Service Center does not currently serve as a taxing authority.

H. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

J. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, (five to twenty years) as applicable.

Assets in the general fixed assets account group are not depreciated.

K. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

Entitlements:

General Fund
- State Foundation Program

Special Revenue Funds
- Educational Management Information Systems
- Telecommunications Grant

Non-Reimbursable Grants:

Special Revenue Funds
- Eisenhower Grant
- Title VI-B Early Childhood Preschool
- Drug Free Schools Grant
- Career Education Grant
- State and Community Highway Safety (PSSBDTP) Grant
- T.O.P.S. Grant
- School to Work Grant

Grants and entitlements amounted to approximately 75% of the Service Center's operating revenue during the 1999 fiscal year.

L. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 1999, the Service Center had $61,486 "Due to Other Funds" and $9,199 in "Interfund Receivables/Payables."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 1999 the Service Center had no long-term interfund loans.

N. Compensated Absences

The Service Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee. 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Service Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these 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 debt account group.

O. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

P. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Q. Fund Balance Reserves

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. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

R. Memorandum Only - Total Columns

Total columns on the general purposes 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 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.

3. BUDGETARY BASIS OF ACCOUNTING

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
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types

	Governmental Fund Types	
	General Fund	**Special Revenue**
GAAP Basis	$66,463	$174,176
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenues	502,261	296
Due to Expenditures:		
Net Adjustments to Expenditures	(146,259)	(393,974)
Due to Other Sources/Uses	217,752	(217,752)
Budget Basis	$640,217	($437,254)

4. ACCOUNTABILITY AND COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

5. CASH AND INVESTMENTS

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

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

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

Protection of school district 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.

Moneys held by the Service Center which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

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

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

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

4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the Service Center;

5. CASH AND INVESTMENTS (Continued)

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts:

6. 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;

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

8. Securities lending agreements in which the Service Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;

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

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

Deposits: At year end, the carrying amount of the Service Center's deposits were $837,736 and the bank balance was $930,835 of which $200,000 was covered by Federal Depository Insurance. The remainder of the bank balance, $730,835, was uninsured and uncollateralized. Although securities serving as collateral were held by the pledging institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the FDIC.

Investments: GASB statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments classified by risk. Category 1 includes investments that are insured or registered for which the securities are held in the counter party's trust department or agent in the Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department but not in the Service Center's name. Investments in STAR Ohio are not categorized since they are not evidenced by securities that exist in physical or book entry form.

5. *CASH AND INVESTMENTS (Continued)*

		Category		Carrying	Market
	1	2	3	Value	Value
Star Ohio	$ 0	0	0	$2,187,179	$2,187,179

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, entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents	Investments
GASB Statement No.9	$3,024,915	$ 0
Investments:		
Star Ohio	(2,187,179)	2,187,179
GASB Statement No. 3	$837,736	$2,187,179

6. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1999, the Service Center has implemented Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Statement No. 31 establishes new accounting standards for the treatment of investments, specifically reporting investments at "fair value." No change was required from prior years.

7. RECEIVABLES

Receivables at June 30, 1999 consisted of tuition and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current guarantee of Federal funds.

7. RECEIVABLES (Continued)

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Pre-School Program	$ 201
Transportation Reimbursement	8,071
CAFS Funding	14,893
Total General Fund	23,165
Special Revenue Fund:	
Career Education Grant	9,199
Tuition	1,995
Total Special Revenue Fund	11,194
Enterprise Fund	
Tuition	154
Total Enterprise Fund	154
Grand Total	$ 34,513

8. FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 1999:

	General Fixed Assets June 30, 1998	Additions	Deletions	General Fixed Assets June 30, 1999
Furniture and Equipment	$457,511	$13,725	$6,574	$464,662
Vehicles	65,061	44,605	0	109,666
Total General Fixed Assets	$522,572	$58,330	$6,574	$574,328

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Service Center is required to contribute at am actuarially determined rate. The Service Center's current rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998 and 1997 were $72,513, $62,849, and $51,308, respectively; 99 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. $163 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Service Center is required to contribute 14 percent; 6 percent was the portion 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 Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998 and 1997 were: $316,695, $317,956, and $291,479, respectively; 0 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. $316,695 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System /State Teachers Retirement System. As of June 30, 1999, none of the Governing Board members have elected social security.

10. POSTEMPLOYMENT BENEFITS

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

10. POSTEMPLOYMENT BENEFITS (Continued)

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. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, and increase from 3.5 percent for fiscal year 1998. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was $2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were $219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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 percent of the premium.

For the fiscal year ended June 30, 1998 (the latest information available), employer contributions to fund health care benefits were 6.3 percent of covered payroll, an increase from 4.8 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at $12,400. The surcharge 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 the Service Center, this amount equaled $45,147 during the 1999 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 1998, net health care costs paid by SERS were $97,429,197.

11. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from District Policy and State laws. Only Administrative and support personnel who are under a full year contract are eligible for vacation time.

Employees earn ten to twenty days of vacation per year, depending upon length of service. Employees can accumulate one and one half times their vacation to a maximum of thirty days. Accumulated, unused vacation time is paid to employees upon termination of employment.

Personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-5	10
6-10	15
11-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 200 days.

For all employees, retirement severance is paid to each employee retiring from the Service Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 40 days.

12. RISK MANAGEMENT

General Risk

The 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 Service Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of $2,000,000 for each occurrence and $5,000,000 in the aggregate.

The Service Center maintains replacement cost insurance on building contents in the amount of $50,000. Other insurance includes electronic data processing equipment coverage in the amount of $40,000.

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, The President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Health Insurance

The Service Center purchases Health Insurance from the Ashtabula County Schools Council of Governments Insurance Group, a full indemnity program.

13. LONG-TERM DEBT

A summary of changes in long-term obligations for the year ended June 30, 1999, are as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30,1999
Intergovernmental Payable	$0	$19,353		$19,353
Compensated Absences Payable	279,431		$3,688	275,743
Total Long-Term Debt	$279,431	$19,353	$3,688	$295,096

13. LONG-TERM DEBT (Continued)

Additions and deletions of compensated absences and intergovernmental payable are shown net since it is impracticable for the Service Center to determine these amounts separately.

14. JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network - (NEOMIN) is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. 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 districts support NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), two superintendents from Ashtabula County school districts, four superintendents from Trumbull County districts, a principal and treasurer. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Ashtabula County Joint Vocational School District - The Service Center is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a nine-member board of education. The Service Center has no ongoing financial interest or financial responsibility to the Ashtabula County Joint Vocational School District.

Ashtabula County Schools Council of Governments - The Service Center's Superintendent is a member of the governing board of the Ashtabula County Schools Council of Governments, a separate entity formed for the purpose of purchasing health insurance. The Service Center has no ongoing financial interest or financial responsibility to the Council of Governments other than via participation by purchasing health insurance

15. CONTINGENCIES

Grants

The 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 Service Center at June 30, 1999.

Litigation

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

16. SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program," which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1998, the Service Center received $3,266,057 of school foundation support for its general fund, and $3,439,862 in total (all funds) support.

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

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

17. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Service Center's operations as early as Fiscal Year 1999.

The Service Center has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting through the State Education Management Information System (EMIS).

The Service Center uses Snyder & Associates' software for its financial reporting, payroll and employee benefits. Snyder & Associates is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Service Center in the form of "foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the Service Center through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Service Center's remediation efforts will be successful in whole or in part, or that parties with whom the Service Center does business will be Year 2000 ready.

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
Direct Program:				
Telecommunications Act Grant		84.XXX	5,373	5,373
Passed Through Ohio Department of Education:				
School-to-Work Pass-Through Grant	STW-1997-123002	17.249	165,185	165,960
	STW-1998-B12003		9,957	23,513
Total School-to-Work Grant			175,142	189,473
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF-98	84.027		141,118
	6B-SF-99		312,292	32,288
Total Special Education Grant			312,292	173,406
Special Education - Preschool Grant	PG-S1-98	84.173		16,543
	PG-S1-99		23,829	2,113
Total Preschool Grant			23,829	18,656
Total Special Education Cluster			336,121	192,062
Drug Free Schools and Communities Grant	DR-S1-98	84.186		13,181
	DR-S1-99		38,583	37,759
Total Drug-Free Schools Grant			38,583	50,940
Eisenhower Professional Development Program	MS-S1-97	84.281		1,470
	MS-S1-98			29,307
	MS-S1-99		39,098	17,068
Total Eisenhower Professional Development Program			39,098	47,845
Totals			**$594,317**	**$485,693**

The notes to the schedule of federal awards expenditures is an integral part of this schedule.

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

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To the Board of Education:

We have audited the financial statements of Ashtabula County Educational Service Center, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 29, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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*.

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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated December 29, 1999.

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

Jim Petro
Auditor of State

December 29, 1999

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

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To the Board of Education:

Compliance

We have audited the compliance of Ashtabula County 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 its major federal program for the year ended June 30, 1999. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the 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 generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 program for the year ended June 30, 1999.

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, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Jim Petro
Auditor of State

December 29, 1999

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

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):**	Employment Services and Job Training - Pilot and Demonstration Programs CFDA #17.249
(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

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OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER

ASHTABULA 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.

By: Susan Babbitt

Date: JAN 11 2000