

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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
General Purpose Financial Statements:	
<i>Combined Balance Sheet - All Funds Types and Account Groups</i>	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	6
Statement of Revenues, Expenses and Changes in Retained Earnings Proprietary Fund Type	8
Statement of Cash Flows - Proprietary Fund Type	9
Notes to the General Purpose Financial Statements	10
Schedule of Federal Awards Receipts and Expenditures	29
Notes to the Schedule of Federal Awards Receipts and Expenditures	30
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	31
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	33
Schedule of Findings	35



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 2nd Street, NW, 4th Floor
Canton, Ohio 44702

Telephone 330-438-0617
800-443-9272

Facsimile 330-471-0001

REPORT OF INDEPENDENT ACCOUNTANTS

Governing Board
Tri-County Educational Service Center
Wayne County
2534 Burbank Road
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, (the 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 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.

As described in Note 3 to the general purpose financial statements, certain changes in accounting policies and reporting practices were made in order to present the aforementioned financial statements in conformity with generally accepted accounting principles. Such changes were adopted effective July 1, 1998 and to implement those changes, adjustments were made to restate fund balances as of this date.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Service Center as of June 30, 1999, and the results of its operations and the cash flows of its Proprietary Fund Type 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 January 3, 2000 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

A handwritten signature in black ink, appearing to read "Jim Petro", is written over a horizontal line. The signature is stylized and cursive.

Jim Petro
Auditor of State

January 3, 2000

Tri-County Educational Service Center

*Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999*

	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Internal Service
Assets and Other Debit			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,602,402	\$299,968	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0
Receivables:			
Intergovernmental	287,306	0	0
Accrued Interest	708	0	0
Interfund	2,767	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debit	\$2,893,183	\$299,968	\$0
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$59,420	\$18,281	\$0
Accrued Wages	390,050	18,731	0
Intergovernmental Payable	475,529	17,003	0
Compensated Absences Payable	26,764	1,596	0
Interfund Payable	0	0	2,767
Claims Payable	0	0	139,741
Capital Leases Payable	0	0	0
Undistributed Monies	0	0	0
Total Liabilities	951,763	55,611	142,508
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved (Deficit)	0	0	(142,508)
Fund Balance:			
Reserved for Encumbrances	507,135	124,711	0
Unreserved, Undesignated	1,434,285	119,646	0
Total Fund Equity and Other Credits	1,941,420	244,357	(142,508)
Total Liabilities, Fund Equity and Other Credits	\$2,893,183	\$299,968	\$0

See accompanying notes to the general purpose financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$0	\$0	\$0	\$2,902,370
612,043	0	0	612,043
0	0	0	287,306
0	0	0	708
0	0	0	2,767
0	505,123	0	505,123
0	0	340,546	340,546
<u>\$612,043</u>	<u>\$505,123</u>	<u>\$340,546</u>	<u>\$4,650,863</u>
\$0	\$0	\$0	\$77,701
0	0	0	408,781
0	0	19,629	512,161
0	0	309,000	337,360
0	0	0	2,767
0	0	0	139,741
0	0	11,917	11,917
612,043	0	0	612,043
<u>612,043</u>	<u>0</u>	<u>340,546</u>	<u>2,102,471</u>
0	505,123	0	505,123
0	0	0	(142,508)
0	0	0	631,846
0	0	0	1,553,931
0	505,123	0	2,548,392
<u>\$612,043</u>	<u>\$505,123</u>	<u>\$340,546</u>	<u>\$4,650,863</u>

Tri-County Educational Service Center

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*

All Governmental Fund Types

For the Fiscal Year Ended June 30, 1999

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$4,228,075	\$1,017,222	\$5,245,297
Customer Services	2,399,455	0	2,399,455
Tuition and Fees	151,140	0	151,140
Interest	161,008	0	161,008
Donations	11,949	0	11,949
Miscellaneous	13,697	0	13,697
Total Revenues	6,965,324	1,017,222	7,982,546
Expenditures			
Current:			
Instruction:			
Regular	186,980	27,299	214,279
Special	785,218	98,173	883,391
Vocational	1,218	0	1,218
Adult/Continuing	98,914	0	98,914
Support Services:			
Pupils	1,262,701	26,479	1,289,180
Instructional Staff	2,128,204	573,697	2,701,901
Board of Education	20,609	0	20,609
Administration	186,170	205,433	391,603
Fiscal	173,230	10,834	184,064
Business	182,546	0	182,546
Operation and Maintenance of Plant	43,029	0	43,029
Pupil Transportation	0	4,560	4,560
Central	12,450	2,632	15,082
Operation of Non-Instructional Services	1,288,582	86,764	1,375,346
Debt Service:			
Principal Retirement	22,364	0	22,364
Interest and Fiscal Charges	2,056	0	2,056
Total Expenditures	6,394,271	1,035,871	7,430,142
Excess of Revenues Over (Under) Expenditures	571,053	(18,649)	552,404
Other Financing Sources (Uses)			
Sale of Fixed Assets	5	0	5
Operating Transfers In	0	1,500	1,500
Operating Transfers Out	(1,500)	0	(1,500)
Total Other Financing Sources (Uses)	(1,495)	1,500	5
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	569,558	(17,149)	552,409
Fund Balances Beginning of Year - Restated (See Note 3)	1,371,862	261,506	1,633,368
Fund Balances End of Year	\$1,941,420	\$244,357	\$2,185,777

See accompanying notes to the general purpose financial statements

Tri-County Educational Service Center
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, 1999

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$4,267,252	\$4,218,996	(\$48,256)
Customer Services	1,827,306	2,754,285	926,979
Tuition and Fees	151,620	151,140	(480)
Interest	100,000	161,200	61,200
Donations	13,250	11,949	(1,301)
Miscellaneous	18,187	13,697	(4,490)
<i>Total Revenues</i>	<u>6,377,615</u>	<u>7,311,267</u>	<u>933,652</u>
Expenditures			
Current:			
Instruction:			
Regular	258,451	208,570	49,881
Special	936,093	873,238	62,855
Vocational	12,176	12,175	1
Adult/Continuing	142,446	100,168	42,278
Support Services:			
Pupils	1,420,607	1,305,910	114,697
Instructional Staff	2,492,613	2,224,768	267,845
Board of Education	35,459	23,182	12,277
Administration	655,062	623,674	31,388
Fiscal	207,808	173,973	33,835
Business	229,362	187,172	42,190
Operation and Maintenance of Plant	241,998	46,204	195,794
Pupil Transportation	0	0	0
Central	31,965	14,646	17,319
Operation of Non-Instructional Services	1,459,192	1,291,123	168,069
<i>Total Expenditures</i>	<u>8,123,232</u>	<u>7,084,803</u>	<u>1,038,429</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,745,617)</u>	<u>226,464</u>	<u>1,972,081</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Fixed Assets	0	5	5
Operating Transfers In	0	0	0
Advances In	0	48,200	48,200
Other Financing Uses	(27,450)	0	27,450
Advances Out	(4,000)	0	4,000
Operating Transfers Out	(1,500)	(1,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(32,950)</u>	<u>46,705</u>	<u>79,655</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,778,567)</u>	<u>273,169</u>	<u>2,051,736</u>
<i>Fund Balances at Beginning of Year</i>	1,621,421	1,621,421	0
<i>Prior Year Encumbrances Appropriated</i>	157,146	157,146	0
<i>Fund Balances at End of Year</i>	<u>\$0</u>	<u>\$2,051,736</u>	<u>\$2,051,736</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)
\$1,343,287	\$1,124,741	(\$218,546)	\$5,610,539	\$5,343,737	(\$266,802)
0	0	0	1,827,306	2,754,285	926,979
0	0	0	151,620	151,140	(480)
0	0	0	100,000	161,200	61,200
0	0	0	13,250	11,949	(1,301)
0	0	0	18,187	13,697	(4,490)
<u>1,343,287</u>	<u>1,124,741</u>	<u>(218,546)</u>	<u>7,720,902</u>	<u>8,436,008</u>	<u>715,106</u>
34,575	34,575	0	293,026	243,145	49,881
141,557	136,928	4,629	1,077,650	1,010,166	67,484
0	0	0	12,176	12,175	1
0	0	0	142,446	100,168	42,278
26,479	26,479	0	1,447,086	1,332,389	114,697
939,289	651,343	287,946	3,431,902	2,876,111	555,791
0	0	0	35,459	23,182	12,277
250,499	202,530	47,969	905,561	826,204	79,357
14,147	11,205	2,942	221,955	185,178	36,777
0	0	0	229,362	187,172	42,190
0	0	0	241,998	46,204	195,794
4,560	4,560	0	4,560	4,560	0
3,450	2,632	818	35,415	17,278	18,137
142,803	103,988	38,815	1,601,995	1,395,111	206,884
<u>1,557,359</u>	<u>1,174,240</u>	<u>383,119</u>	<u>9,680,591</u>	<u>8,259,043</u>	<u>1,421,548</u>
<u>(214,072)</u>	<u>(49,499)</u>	<u>164,573</u>	<u>(1,959,689)</u>	<u>176,965</u>	<u>2,136,654</u>
0	0	0	0	5	5
1,500	1,500	0	1,500	1,500	0
0	0	0	0	48,200	48,200
0	0	0	(27,450)	0	27,450
(48,200)	(48,200)	0	(52,200)	(48,200)	4,000
0	0	0	(1,500)	(1,500)	0
<u>(46,700)</u>	<u>(46,700)</u>	<u>0</u>	<u>(79,650)</u>	<u>5</u>	<u>79,655</u>
(260,772)	(96,199)	164,573	(2,039,339)	176,970	2,216,309
133,822	133,822	0	1,755,243	1,755,243	0
127,178	127,178	0	284,324	284,324	0
<u>\$228</u>	<u>\$164,801</u>	<u>\$164,573</u>	<u>\$228</u>	<u>\$2,216,537</u>	<u>\$2,216,309</u>

Tri-County Educational Service Center
*Statement of Revenues,
 Expenses and Changes in Retained Earnings
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 1999*

	<u>Internal Service</u>
Operating Revenues	
Charges for Services	\$466,359
Other	1,390
	<u>467,749</u>
<i>Total Operating Revenues</i>	
Operating Expenses	
Purchased Services	106,005
Claims	532,811
	<u>638,816</u>
<i>Total Operating Expenses</i>	
<i>Operating Loss</i>	<u>(171,067)</u>
Non-Operating Revenues	
Interest	1,661
	<u>1,661</u>
<i>Total Non-Operating Revenues</i>	
<i>Net Loss</i>	<u>(169,406)</u>
<i>Retained Earnings at Beginning of Year</i>	
<i>Restated - (See Note 3)</i>	26,898
	<u>26,898</u>
<i>Retained Earnings (Deficit) at End of Year</i>	<u>(\$142,508)</u>

See accompanying notes to the general purpose financial statements

Tri-County Educational Service Center

Statement of Cash Flows

Proprietary Fund Type

For the Fiscal Year Ended June 30, 1999

	<u>Internal Service</u>
DECREASE IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities	
Cash Received from Customers	\$466,359
Cash Received from Other Operating Sources	1,390
Cash Payments to Suppliers for Goods and Services	(106,005)
Cash Payments for Claims	<u>(538,624)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(176,880)</u>
Cash Flows from Noncapital Financing Activity	
Advances from Other Funds	<u>2,767</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>2,767</u>
Cash Flows from Investing Activities	
Interest on Investments	<u>1,661</u>
<i>Net Cash Provided by Investing Activities</i>	<u>1,661</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(172,452)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>172,452</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$0</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	<u>(\$171,067)</u>
<i>Adjustments:</i>	
Changes in Liabilities:	
Decrease in Claims Payable	<u>(5,813)</u>
<i>Total Adjustments</i>	<u>(5,813)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$176,880)</u></u>

See accompanying notes to the general purpose financial statements

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 Service Center is an educational service center as defined by Section 3311.05 of the Ohio revised Code. The 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 60 noncertificated and 89 certificated teaching personnel who provide services to 31,555 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 is 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 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 had no component units.

The Educational Service Center is associated with certain organizations which are defined as a Jointly Governed Organization and a Public Entity Risk Pool. These organizations are presented in Note 9 and 10 to the general purpose financial statements. These organizations include the Midland Council of Governments Tri-County Computer Service Association, the Tri-County Joint Self-Insurance Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio Mid-Eastern Regional Education Service Agency.

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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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, proprietary, and fiduciary.

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: Proprietary Funds are used to account for the Educational Service Center's ongoing activities, which are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Educational Service Center's business and quasi-business activities, where net income and capital maintenance are measured are accounted for through proprietary funds. The following is the Educational Service Center's proprietary fund type:

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

Fiduciary Fund Types: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include agency funds. The following is the Educational Service Center's fiduciary fund type:

Agency Fund: The Agency Fund is purely custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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

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

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

B. Measurement Focus and Basis of Accounting

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

All Proprietary Funds are 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 disclosed as retained earnings. Proprietary Fund type operating statements present increases (e.g., revenues) and decreases (e.g., 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 and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and 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 types. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable. Unbilled service charges are recognized as revenue at year end.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 teacher approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County 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, function, and object level of expenditures, which are the legal levels 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 or alter total function appropriations within a fund, or alter object appropriations within functions, 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, other than agency 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 Service Center is fiscal agent for a jointly governed organization which utilizes a fiscal agent to serve as a claim servicer for the self-insurance program. The jointly governed organization's balance with the claim servicer is presented as "Cash and Cash Equivalents with Fiscal Agent" in the agency fund. The Service Center's balance with the jointly governed organization is presented as "Cash and Cash Equivalents with Fiscal Agent" in the internal service fund.

During fiscal year 1999, investments were limited to Certificates of Deposit and STAR Ohio, the State Treasurer's Investment Pool. 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, 1999.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 1999, the general fund received interest earned in the amount of \$161,008.

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. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no significant inventory balance at June 30, 1999.

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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

G. Intergovernmental Revenues

Intergovernmental revenues, such as entitlement and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues are measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Early Childhood Intervention

Educational Management Information System

Public Preschool Assistance

Entry Year Program

Eisenhower

Title I

Title VI-B

Drug Free

Handicapped Preschool

Grants and entitlements amounted to 66 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

H. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to the other funds" on the combined balance sheet. Short-term interfund loans are classified as "interfund receivable/payables."

I. 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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.

J. Accrued Liabilities and Long-Term Obligations

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

K. 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.

L. 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.

M. Estimates

The preparation of financial statements in conformity with generally accepted 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.

N. 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 3 - Change in Accounting Principle

For fiscal year ended June 30, 1999, the Educational Service Center has presented financial statements by fund type and account group in accordance with generally accepted accounting principles. In conjunction with this presentation, the Service Center has changed its basis of accounting from a cash basis to the modified accrual basis for its governmental and agency funds and to the accrual basis for its proprietary fund. This change required that certain adjustments be recorded to the July 1, 1998, fund balances as previously reported to reflect the prior years effects of adopting these new principles.

The restatements to the opening fund balances are a follows:

	Previously Stated Balance at 6/30/98	Adjustments	Restated Balance at 7/1/98
Governmental Funds:			
General	\$1,778,568	(\$406,706)	\$1,371,862
Special Revenue	261,000	506	261,506
Proprietary Fund:			
Internal Service Fund	0	26,898	26,898
Fiduciary Fund:			
Agency	927,861	(927,861)	0

Note 4 - 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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
All Governmental Fund Types*

	<u>General</u>	<u>Special Revenue</u>
<i>GAAP Basis</i>	\$569,558	(\$17,149)
Net Adjustment for Revenue Accruals	345,943	107,519
Advances In	48,200	0
Net Adjustment for Expenditure Accruals	(137,100)	(3,202)
Advances Out	0	(48,200)
Adjustment for Encumbrances	(553,432)	(135,167)
<i>Budget Basis</i>	<u>\$273,169</u>	<u>(\$96,199)</u>

Note 5 - Fund Deficit

The self-insurance internal service fund had a deficit retained earnings of \$142,508, at June 30, 1999. The deficit resulted from adjustments for accrued liabilities.

Note 6 - 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 two 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 two percent and be marked to market daily; and that the term of the agreement does not exceed thirty 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; and
6. The State Treasurer's investment pool (STAR Ohio).

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.

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$1,107,068 and the bank balance was \$1,373,732. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,173,732 was uninsured and uncollateralized. 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 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, 1999 was \$1,795,302.

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>	\$3,514,413	\$0
Investments which are part of the cash management pool:		
STAR Ohio	(1,795,302)	1,795,302
Money held by fiscal agent	(612,043)	0
<i>GASB Statement No. 3</i>	<u>\$1,107,068</u>	<u>\$1,795,302</u>

Note 7 - Receivables

Receivables at June 30, 1999, 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 receivable follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Excess Cost Reimbursement	\$240,171
Medicaid	47,135
<i>Total Intergovernmental Receivables</i>	<u>\$287,306</u>

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 8 - 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. All other lawful expenditures are funded by both State and local funds. The Educational Service Center receives \$45.01 for all other lawful expenditures and it 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, \$38.51 times the sum of 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 \$45.01 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 9 - 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 boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

The Tri-County Joint Self-Insurance Association is a jointly governed organization which is comprised of four participating members. The members are the Tri-County Educational Service Center, Ashland County West Holmes Joint Vocational School District, Hillsdale Local School District and Mapleton Local School District. The Tri-County Joint Self-Insurance Association possesses its own budgeting and taxing authority. To obtain financial information, write to the Tri-County Educational Service Center, 2534 Burbank Road, Wooster, Ohio 44691.

Note 10 - Public Entity Risk Pools

A. Insurance Purchasing Pool

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Grating 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

B. Claims Servicing Pool

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency (OMERESA), a claims servicing pool. OMERESA's 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 11 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 1999 follows:

	<i>Balance June 30, 1998</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 1999</i>
Furniture and Fixtures	\$448,458	\$56,665	\$0	\$505,123
<i>Total</i>	<u>\$448,458</u>	<u>\$56,665</u>	<u>\$0</u>	<u>\$505,123</u>

There was no significant construction in progress at June 30, 1999.

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 1999, the Educational Service Center contracted with Harcum-Hyre 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 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group rating Program, an insurance purchasing pool (Note 10). 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Health, dental, and vision insurance is available to most employees through a self-insurance internal service fund. The Educational Service Center is a member of a claims servicing pool, consisting of area school districts within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$139,741 reported in the internal service fund at June 30, 1999 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 fiscal year is 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>
1999	\$145,554	\$532,811	\$538,624	\$139,741
1998	115,170	627,492	597,108	145,554

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 1998, 9.02 percent was the portion 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, 1999, 1998 and 1997 were \$62,703, \$52,606 and \$50,453, respectively, equal to the required contributions for each year. 87% has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$19,629 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the general long-term obligations account group.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion to fund pension obligations was 12 percent. 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, 1999, 1998, and 1997 were \$184,655, \$167,068 and \$160,386, respectively, equal to the required contributions for each year. \$474,596 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security System

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, one of the governing board members has selected social security. The board's liability is 6.2% of the wages paid.

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.

The State Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of 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. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the Educational Service Center, this amount equaled \$114,495, during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998 (the latest information available). 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.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

For SERS, coverage is made available to service retirees with ten or more 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 this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. 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 1999, the minimum pay was established at \$12,400.

The target level for the health care reserves is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participating currently receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$70,819, during the fiscal year.

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 fifteen to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. All employees 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.

B. Life Insurance

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

Note 16 - Capital Leases

The Educational Service Center has entered into capital leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition in the amount of \$101,828. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999:

<i>Fiscal Year Ending June 30, 1999</i>	<i>General Long-Term Obligations</i>
2000	\$12,214
<i>Total Minimum Lease Payments</i>	12,214
<i>Less: Amount Representing Interest</i>	297
<i>Present Value of Net Minimum Lease Payments</i>	<u>\$11,917</u>

Note 17 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 1999, were as follows:

	<i>Principal Outstanding June 30, 1998</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 1999</i>
Total Capital Leases	\$34,281	\$0	\$22,364	\$11,917
Intergovernmental Payable	21,544	19,629	21,544	19,629
Compensated Absences	299,122	13,118	3,240	309,000
<i>Total Long-Term Obligations</i>	<u>\$354,947</u>	<u>\$32,747</u>	<u>\$47,148</u>	<u>\$340,546</u>

Capital lease obligations will be paid from the general fund. 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 employee's salaries is paid.

Note 18 - Interfund Transactions

Interfund balances at June 30, 1999, consist of a receivable of \$2,767 for the general fund and a payable of \$2,767 for the self-insurance internal service fund.

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 19 - 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, 1999.

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 these future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Note 20 - School Funding Issue

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 Ohio General Assembly 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 the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$3,431,304 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on the issue. The decision of the Court of Common Pleas Court in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

Tri-County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 21 - Year 2000 Issue

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations .

The Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting operations and has identified such systems as accounting/financial reporting, payroll and employee benefits, and reporting educational statistics.

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its accounting/financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The Educational Service Center uses State of Ohio Education Management and Information System for reporting educational statistics. The State of Ohio is responsible for remediating these systems. The Educational Service Center has been notified that as of September 1998, these systems are validated and tested and will be compliant with the Year 2000.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" and federal and state grant payments. The state is responsible for remediating its fund distribution system.

Utility services to the Educational Service Center (electric, gas, water and sewer) are vendor provided. These vendors are responsible for remediating these systems and any costs associated. The Educational Service Center has not obtained assurances from these vendors regarding Year 2000 compliance.

To the best of management's knowledge and belief, as of January 3, 2000, the Educational Service Center experienced no interruption of operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Educational Service Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

<i>Pass Through Grantor/Federal Grantor/ Program Title</i>	<i>Federal CFDA Number</i>	<i>Receipts</i>	<i>Expenditures</i>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed through the Ohio Department of Education:</i>			
Eisenhower Math & Science Grant	84.164	\$18,764	\$17,280
Eisenhower Math & Science Grant		57,309	63,867
Eisenhower Math & Science Grant		0	37,185
<i>Total Eisenhower Math & Science Grant</i>		<u>76,073</u>	<u>118,332</u>
<i>School Improvement</i>	84.281	151,000	100,084
Title I - Grants to Local Educational Agencies	84.010	301,000	241,689
Title I - Grants to Local Educational Agencies		60,758	82,520
<i>Total Title I - Grants to Local Educational Agencies</i>		<u>361,758</u>	<u>324,209</u>
Safe, Drug Free Schools and Communities Grant	84.186	64,261	21,424
Safe, Drug Free Schools and Communities Grant		30,365	57,737
<i>Total Safe, Drug Free Schools and Communities Grants</i>		<u>94,626</u>	<u>79,161</u>
Handicapped Preschool Grant	84.173	132,327	120,550
Handicapped Preschool Grant		0	8,956
<i>Total Handicapped Preschool Grant</i>		<u>132,327</u>	<u>129,506</u>
<i>Goals 2000 Grant</i>	84.276	113,040	102,666
<i>Total U.S. Department of Education</i>		928,824	853,958
U.S. DEPARTMENT OF HEALTH			
<i>Passed through the Ohio Department of Health:</i>			
Early Intervention Grant	84.181	57,144	55,359
Early Intervention Grant		36,625	73,136
<i>Total Early Intervention Grant</i>		<u>93,769</u>	<u>128,495</u>
<i>Total U.S. Department of Health</i>		93,769	128,495
Total		<u>\$1,022,593</u>	<u>\$982,453</u>

See accompanying notes to Schedule of Federal Awards Expenditures

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



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

111 2nd Street, NW, 4th Floor
Canton, Ohio 44702

Telephone 330-438-0617
800-443-9272

Facsimile 330-471-0001

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

Governing Board
Tri-County Educational Service Center
Wayne County
2534 Burbank Road
Wooster, Ohio 44691

To the Governing Board:

We have audited the financial statements of the Tri-County Educational Service Center, Wayne County, (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 3, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated January 3, 2000.

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

This report is intended for the information and use of 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", is written over a horizontal line. The signature is stylized and cursive.

Jim Petro
Auditor of State

January 3, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 2nd Street, NW, 4th Floor
Canton, Ohio 44702

Telephone 330-438-0617
800-443-9272

Facsimile 330-471-0001

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

Governing Board
Tri-County Educational Service Center
Wayne County
2534 Burbank Road
Wooster, Ohio 44691

To the Governing Board:

Compliance

We have audited the compliance of the Tri-County Educational Service Center, Wayne County, (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. *In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB 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.



Jim Petro
Auditor of State

January 3, 2000

**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 material reported 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):	Eisenhower Professional Development State Grants - CFDA #84.281 Special Education - Preschool Grants - CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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

111 2nd Street, NW
Canton, Ohio 44702
Telephone 330-438-0617
800-443-9272
Facsimile 330-471-0001

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.

By: *Susan Babbitt*
Clerk of the Bureau

Date: **FEB 17 2000**