



**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Tuscarawas County Educational Service Center
Tuscarawas County
172 North Broadway
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited the accompanying general purpose financial statements of the Tuscarawas County Educational Service Center, Tuscarawas County, Ohio, (the Service Center) as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Tuscarawas County Educational Service Center, Tuscarawas County, Ohio, (the Service Center) as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2002 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the Service Center, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Jim Petro
Auditor of State

January 8, 2002

TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>ASSETS AND OTHER DEBITS</u>						
ASSETS:						
Equity in pooled cash and cash equivalents	\$1,314,793	\$148,376	\$105,794			\$1,568,963
Receivables (net of allowances of uncollectibles):						
Accounts	132,621					132,621
Intergovernmental	162,128	17,156				179,284
Fixed assets (net of accumulated depreciation where applicable)				\$463,395		463,395
OTHER DEBITS:						
Amount to be provided for retirement of general long-term obligations					\$96,814	96,814
Total assets and other debits	\$1,609,542	\$165,532	\$105,794	\$463,395	\$96,814	\$2,441,077
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>						
LIABILITIES:						
Accounts payable	\$2,241	\$3,948				\$6,189
Accrued wages and benefits	350,206	8,832				359,038
Compensated absences payable	4,673				\$77,707	82,380
Intergovernmental payable	252,903	9,039			19,107	281,049
Deferred revenue		17,156				17,156
Undistributed monies			\$105,794			105,794
Total liabilities	610,023	38,975	105,794		96,814	851,606
EQUITY AND OTHER CREDITS:						
Investment in general fixed assets				\$463,395		463,395
Fund balances:						
Reserved for encumbrances	194,179	30,525				224,704
Unreserved-undesignated	805,340	96,032				901,372
Total equity and other credits	999,519	126,557		463,395		1,589,471
Total liabilities, equity and other credits	\$1,609,542	\$165,532	\$105,794	\$463,395	\$96,814	\$2,441,077

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
From local sources:			
Tuition	\$16,670		\$16,670
Earnings on investments	49,536		49,536
Donations	36,000		36,000
Customer services	1,251,892		1,251,892
Intergovernmental - State	1,326,266	\$467,714	1,793,980
Intergovernmental - Federal	<u>1,195,789</u>	<u>246,487</u>	<u>1,442,276</u>
Total revenue	<u>3,876,153</u>	<u>714,201</u>	<u>4,590,354</u>
Expenditures:			
Current:			
Instruction:			
Regular	124,123	196,384	320,507
Special	474,505	7,497	482,002
Other		23,959	23,959
Support services:			
Pupil	1,300,962	129,061	1,430,023
Instructional staff	817,827	268,139	1,085,966
Board of Education	13,326		13,326
Administration	269,864	36,271	306,135
Fiscal	182,702	24,795	207,497
Business	140,702		140,702
Operations and maintenance	7,763	35,385	43,148
Pupil transportation	444	960	1,404
Central	184,494	53,587	238,081
Community services		6,685	6,685
Facilities acquisition and construction		<u>23,624</u>	<u>23,624</u>
Total expenditures	<u>3,516,712</u>	<u>806,347</u>	<u>4,323,059</u>
Excess (deficiency) of revenues over (under) expenditures	359,441	(92,146)	267,295
Fund balances, July 1 (restated)	<u>640,078</u>	<u>218,703</u>	<u>858,781</u>
Fund balances, June 30	<u>\$999,519</u>	<u>\$126,557</u>	<u>\$1,126,076</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:									
From local sources:									
Tuition.....	\$16,670	\$16,670	\$0				\$16,670	\$16,670	\$0
Earnings on investments.....	49,536	49,536	0				49,536	49,536	0
Donations	36,000	36,000	0				36,000	36,000	0
Customer services.....	1,148,680	1,148,680	0				1,148,680	1,148,680	0
Intergovernmental - State.....	1,326,266	1,326,266	0	\$467,714	\$467,714	\$0	1,793,980	1,793,980	0
Intergovernmental - Federal.....	1,033,661	1,033,661	0	263,643	246,487	(17,156)	1,297,304	1,280,148	(17,156)
Total revenues.....	<u>3,610,813</u>	<u>3,610,813</u>	<u>0</u>	<u>731,357</u>	<u>714,201</u>	<u>(17,156)</u>	<u>4,342,170</u>	<u>4,325,014</u>	<u>(17,156)</u>
Expenditures:									
Current:									
Instruction:									
Regular.....	113,321	113,321	0	228,604	209,982	18,622	341,925	323,303	18,622
Special.....	492,137	492,137	0	7,497	7,497	0	499,634	499,634	0
Other.....				64,404	20,011	44,393	64,404	20,011	44,393
Support services:									
Pupil.....	1,206,153	1,206,153	0	177,307	129,948	47,359	1,383,460	1,336,101	47,359
Instructional staff.....	840,542	840,542	0	273,599	269,076	4,523	1,114,141	1,109,618	4,523
Board of Education.....	13,325	13,325	0				13,325	13,325	0
Administration.....	270,072	270,072	0	66,379	50,963	15,416	336,451	321,035	15,416
Fiscal.....	182,001	182,001	0	24,795	24,795	0	206,796	206,796	0
Business.....	138,949	138,949	0				138,949	138,949	0
Operations and maintenance.....	7,763	7,763	0	42,682	35,385	7,297	50,445	43,148	7,297
Pupil transportation	444	444	0	960	960	0	1,404	1,404	0
Central.....	191,997	191,997	0	33,405	54,175	(20,770)	225,402	246,172	(20,770)
Community services.....				19,411	6,719	12,692	19,411	6,719	12,692
Facilities acquisition and construction..				23,624	23,624	0	23,624	23,624	0
Total expenditures.....	<u>3,456,704</u>	<u>3,456,704</u>	<u>0</u>	<u>962,667</u>	<u>833,135</u>	<u>129,532</u>	<u>4,419,371</u>	<u>4,289,839</u>	<u>129,532</u>
Excess (deficiency) of revenues over (under) expenditures.....	154,109	154,109	0	(231,310)	(118,934)	112,376	(77,201)	35,175	112,376
Fund balances, July 1 (restated).....	833,325	833,325	0	181,512	181,512	0	1,014,837	1,014,837	0
Prior year encumbrances appropriated..	132,647	132,647	0	55,273	55,273	0	187,920	187,920	0
Fund balances, June 30.....	<u>\$1,120,081</u>	<u>\$1,120,081</u>	<u>\$0</u>	<u>\$5,475</u>	<u>\$117,851</u>	<u>\$112,376</u>	<u>\$1,125,556</u>	<u>\$1,237,932</u>	<u>\$112,376</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Tuscarawas County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio and as defined by Section 3313.01 of the Ohio Revised Code. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts.

The Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 49 non-certificated employees and 64 certificated employees to provide services to approximately 12,000 students in 9 districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity." The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the GPFS are not misleading. The primary government of the ESC consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes all funds and activities whose primary purpose is providing necessary services to area school districts.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The ESC is financially accountable for an organization if the ESC's Governing Board appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organizations's resources; the ESC is legally obligated or has otherwise assumed responsibility to finance the deficits of, or provide financial support to the organization; and the ESC is legally obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC taxes. Based upon the application of these, the ESC has no component units. The following organizations are described due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATION

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)

OME-RESA is a jointly governed organization created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, an educational management information system, cooperative purchase services, and legal services to member districts. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts. The Jefferson County Educational Service Center office serves as the fiscal agent and receives funding from the State Department of Education. The continued existence of OME-RESA is not dependent on the ESC's continued participation and no measurable equity interest exists. OME-RESA has no outstanding debt. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Deborah Campana, who serves as Treasurer, Steubenville, Ohio 43952.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP is a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

RISK SHARING POOL

Tuscarawas-Conotton Valley Local School Benefit Trust Consortium (the "Trust")

The Trust is a public entity shared risk pool consisting of one local school district and two county educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c) (9) of the Internal Revenue Code and provides sick, and in some cases, dental, vision, and prescription drug benefits to the employees of the participating entities. Each participating entity Superintendent is appointed to an Administrative Committee, which advises the Third-Party Administrator, CoreSource Insurance, concerning aspects of the administration of the Trust.

Each entity decides which plans offered by the Trustees will be extended to its employees. Tuscarawas County ESC participates in the health care benefits only. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from CoreSource, Inc., 229 Huber Village Blvd., Westerville, Ohio 43081.

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TUSCARAWAS COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. 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. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the ESC 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 ESC for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, non-expendable trust, and agency funds. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 ESC.

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

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current 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 governmental and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is 60 days after the June 30 year-end. "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. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

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TUSCARAWAS COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Expenditures (decreases in net financial resources) 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; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the ESC prepares a budget of operating expenditures 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 other 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 costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the ESC.

Estimated Resources:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances 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 or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

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TUSCARAWAS COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

The Annual Appropriation Resolution is legally enacted by the Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The Appropriation Resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board. The Governing 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. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. For the general fund, the appropriations equaled expenditures. 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 budgetary basis in order to reserve that portion of the applicable appropriations. 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.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Cash Equivalents

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to investments in the State Asset Treasury Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

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, 2001.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The general fund was credited with more interest revenue than would have been received based upon its share of the ESC's investments:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Investments</u>	<u>Interest Assigned By Other Funds</u>
General Fund	<u>\$49,536</u>	<u>\$37,319</u>	<u>\$12,217</u>

For purposes of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at year-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets. The inventory balance at June 30, 2001, was not material and is not presented on the GPFS.

G. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$300. No depreciation is recognized for assets in the general fixed assets account group. The ESC does not possess any infrastructure.

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (similar to entitlements and shared revenues) are recorded as receivables and revenue when measurable and available (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<p><u>Entitlements</u></p> <p><u>General Fund</u></p> <p>State Foundation Program</p>	<p><u>Non-Reimbursable Grants - (continued)</u></p> <p>SchoolNet Professional Development</p> <p>Even Start Family Literacy</p> <p>Alternative School</p> <p>Handicapped PreSchool</p> <p>Drug-Free Schools</p> <p>Ohio Reads</p>
<p><u>Non-Reimbursable Grants</u></p> <p><u>Special Revenue Funds</u></p> <p>Management Information Systems</p> <p>Training Ohio's Parents for Success</p> <p>Eisenhower</p> <p>Continuous Improvement Facilitator's Grant</p> <p>Assessment Tool</p> <p>Local Professional Development</p> <p>Excellence/Competency</p>	<p><u>Reimbursable Grants</u></p> <p>CAFS Program</p> <p>TANF</p>

Grants and entitlements amounted to approximately 67% of the ESC's operating revenue during the 2001 fiscal year.

I. Compensated Absences

The ESC 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 ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for those eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the ESC has identified as probably of receiving payment in the future. The liability is based on accumulated sick leave and employee wage rates at fiscal year-end, taking into consideration any limits specified in the ESC's termination policy.

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.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid more than 60 days after year-end are considered not to have been paid with current available financial resources.

K. Fund Equity

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

L. Interfund Transactions

During the course of normal operations, the ESC may have transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The ESC made no operating transfers during fiscal year 2001.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had no short-term interfund loans receivable or payable at June 30, 2001.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 2001.

M. Pass-Through Grants

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the county. When the ESC has a financial or administrative role in grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the ESC has no financial or administrative role and are passed-through to other entities and local districts in the county are reported as an agency fund.

N. Estimates

The preparation of the GPFS in conformity with GAAP 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.

O. Memorandum Only - Total Columns

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

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions,” was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the ESC for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the ESC at June 30, 2000.

B. Fund Reclassification

A fund reclassification is required to properly report the activity of Early Childhood grants. The ESC has no administrative or direct financial involvement in these grants. The Early Childhood grants that were previously reported as special revenue funds are now reported as agency funds. This fund reclassification had the following effect on fund balance as previously reported at June 30, 2000:

	<u>Special Revenue</u>
Fund balance as previously reported	\$260,056
Fund reclassification	<u>(41,353)</u>
Restated fund balance at July 1, 2000	<u>\$218,703</u>

This fund reclassification had the following impact on the fiscal year ending 2000 Special Revenue Fund excess of revenues over expenses:

Excess as previously reported	\$134,033
Fund reclassification	<u>(41,353)</u>
Excess as restated	<u>\$ 92,680</u>

Accordingly, the total assets in the Agency Fund increased from \$206,101 to \$255,686.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the ESC 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 ESC 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 the Governing Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 or 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;

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Deposits: At year-end, the carrying amount of the ESC's deposits was \$552,390 and the bank balance was \$1,038,234. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$938,234 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name.

The ESC had investments of \$1,016,573 in STAR Ohio at June 30, 2001. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,568,963	\$ 0
Investment of the cash management pool:		
Investment in STAR Ohio	<u>(1,016,573)</u>	<u>1,016,573</u>
GASB Statement No. 3	<u>\$ 552,390</u>	<u>\$1,016,573</u>

NOTE 5 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the ESC receives \$43.50 for each of the 11,820 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the ESC's supervision) is apportioned by the State Board of Education among the local school district's to which the ESC provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001 consisted of accounts (customer services) and intergovernmental grants and entitlements (to the extent they relate to the current fiscal year). 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 receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Accounts	\$132,621
Intergovernmental	162,128
 <u>Special Revenue Fund</u>	
Intergovernmental	17,156

NOTE 7- FIXED ASSETS

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

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2001</u>
Furniture/equipment	<u>\$205,362</u>	<u>\$258,033</u>	<u>\$ - - -</u>	<u>\$463,395</u>

The Tuscarawas County Commissioners provide office space to the ESC at no charge.

NOTE 8- COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from Governing Board actions and State laws. Full-time certificated and classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated vacation time is paid to eligible employees upon termination of employment. Certificated employees who do not work 12 months are not entitled to vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a total of 180 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 45 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 9- LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the intergovernmental payable will ultimately be paid from the fund from which the employee is paid. Compensated absences are presented net of accrual increases and decreases due to the impracticality of determining these values.

	<u>Balance July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2001</u>
Compensated absences	\$85,313	\$ - - -	\$ (7,606)	\$77,707
Intergovernmental payable	<u>6,850</u>	<u>19,107</u>	<u>(6,850)</u>	<u>19,107</u>
Total	<u>\$92,163</u>	<u>\$19,107</u>	<u>\$(14,456)</u>	<u>\$96,814</u>

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC 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 2001, the ESC contracted with Westfield Insurance Company for commercial property insurance with a \$483,000 single occurrence limit and a \$100 deductible limit per year.

Professional liability is provided by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Driver's Education vehicles are covered by State Farm Insurance Company and hold a \$50 deductible for comprehensive and a \$250 deductible for collision. Bodily Injury/Property Damage liability has a \$500,000 per person/\$1,000,000 per accident and \$500,000 Property Damage liability per accident with a \$25,000 limit per person liability for medical payment. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 10 - RISK MANAGEMENT - (Continued)

B. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). 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. 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 ESC 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 ensures 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.

C. Health Care Benefits

The ESC provides life insurance and accidental death and dismemberment insurance for all full-time employees through the Great American Reserve Insurance Company, administered by CoreSource Insurance Company, in the amount of \$20,000 per employee. The ESC has elected to provide health care benefits to employees and administrators through the Tuscarawas-Conotton Valley Local Schools Benefit Trust Health Consortium. The employees share the cost of the monthly premium with the board.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$111,839, \$59,026, and \$50,009, respectively; 100% has been contributed for fiscal years 2001, 2000 and 1999.

B. State Teachers Retirement System

The ESC 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The ESC's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$201,778, \$154,778, and \$169,490, respectively. 100% has been contributed for fiscal years 2000 and 1999; fiscal year 2001 contributions were paid in full in August 2001. The unpaid portion of \$201,778 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, 2001, two members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$64,857 during fiscal 2001.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$82,167 during the 2001 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis 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 paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Governmental Fund Types	
	<u>General</u>	<u>Special Revenue</u>
Budget basis	\$ 154,109	\$(118,934)
Net adjustment for revenue accruals	265,340	---
Net adjustment for expenditure accruals	(254,720)	(3,737)
Encumbrances (budget basis)	<u>194,712</u>	<u>30,525</u>
GAAP basis	<u>\$ 359,441</u>	<u>\$ (92,146)</u>

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2001.

B. Litigation

The ESC is involved in no litigation as either plaintiff or defendant.

C. State School Funding Decision

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 14 - CONTINGENCIES - (Continued)

C. State School Funding Decision - (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 8, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

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

NOTE 15 - SIGNIFICANT SUBSEQUENT EVENT

On July 1, 2001, the Tuscarawas County Educational Service Center merged with the Carroll-Harrison Educational Service Center to form the Tuscarawas-Carroll-Harrison Educational Service Center.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2001**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department Of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster: Special Education_Grants to States	050260-6B-SI-00	84.027	\$162,239	\$297,018
			<u>600,280</u>	<u>571,160</u>
Total Special Education_Grants to States			762,519	868,178
Special Education_Preschool Grants	050260-PG-SC-00P	84.173	4,022	4,022
	050260-PG-S1-00P		0	7,536
	050260-PG-S1-01P		46,809	42,334
	050260-PG-S3-01P		118,270	112,727
	050260-PG-S7-01		11,250	8,116
	050260-PG-SX-02P		25,929	25,846
	050260-PG-S3-00P		1,577	47,752
	050260-PG-S7-00		0	3,410
Total Special Education_Preschool Grants			<u>207,857</u>	<u>251,743</u>
Total Special Education Cluster			970,376	1,119,921
Even Start_State Educational Agencies	FY 00	84.213	18,342	98,148
	FY 01		154,412	64,353
	FY 01 Monitoring		1,276	1,276
Total Even Start_State Educational Agencies			<u>174,030</u>	<u>163,777</u>
Eisenhower Professional Development State Grants	050260-MS-S1-00	84.281	13,762	15,163
Safe and Drug Free Schools and Communities_ State Grants	050260-DR-S1-00	84.186	1,886	11,628
Goals 2000_State and Local Education Systemic Improvement Grants	50260-G2-S1-01 50260-G2-S1-01	84.276	0 <u>10,000</u>	45,731 <u>10,000</u>
Total Goals 2000_State and Local Education Systemic Improvement Grants			<u>10,000</u>	<u>55,731</u>
Total U.S. Department of Education			1,170,054	1,366,220
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Assistance Program - Community Alternative Funding System (CAFS)	FY 01	93.778	29,439	29,439
<i>Passed Through Tuscarawas County Job & Family Services:</i>				
Temporary Assistance for Needy Families (TANF)	PRC All For One PRC Contract #25	93.558	270,671 <u>733,551</u>	304,655 <u>921,540</u>
Total Temporary Assistance for Needy Families			<u>1,004,222</u>	<u>1,226,195</u>
Total U.S. Department of Health and Human Services			<u>1,033,661</u>	<u>1,255,634</u>
Total			<u>\$2,203,715</u>	<u>\$2,621,854</u>

See accompanying Notes to the Schedule of Receipts and Expenditures of Federal Awards.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



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

Tuscarawas County Educational Service Center
Tuscarawas County
172 North Broadway
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited the general purpose financial statements of the Tuscarawas County Educational Service Center, Tuscarawas County, Ohio, (the Service Center) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

This report is intended for the information and use of the audit committee, 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 8, 2002



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**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**

Tuscarawas County Educational Service Center
Tuscarawas County
172 North Broadway
New Philadelphia, Ohio 44663

To the Governing Board:

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

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

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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings as item 2001-11279-001.

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. Our consideration of the internal control over compliance 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. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the audit committee, 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 8, 2002

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Even Start_State Educational Agencies CFDA #84.213 Temporary Assistance for Needy Families (TANF) CFDA #93.558
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

REPORTABLE CONDITION

FINDING NUMBER 2001-11279-001

Federal Documentation/Monitoring

The Service Center could not readily produce grant agreements and supporting documentation that established clear compliance requirements for determining allowable costs and eligibility for the Temporary Assistance for Needy Families (TANF) grant. In addition, the Service Center did not have a process in place to periodically evaluate whether the program was conducted in accordance with these grant compliance requirements. This increases the risk that federal programs may not be operated in accordance with compliance requirements. Thus, it initially appeared the Service Center provided services with federal monies to ineligible as well as eligible participants; however, these matters were resolved once appropriate grant documents were provided.

Before entering into any agreement, the Service Center should ensure that contract language is sufficiently clear on their responsibility for complying with any legal compliance requirements associated with the contract or reference to documents that establishes legal compliance requirements. The Service Center should also establish procedures to periodically evaluate whether any federal program is operating within grant compliance requirements.

**TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY
JUNE 30, 2001**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315 (c)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contract Person
2001-11279-001	<p>The Service Center will review purchase of service contracts to ensure that language is sufficiently clear regarding our responsibility for complying with any legal compliance requirements associated with the contract.</p> <p>The Service Center will also establish procedures to periodically evaluate whether any federal program is operating within grant compliance requirements.</p>	To be implemented immediately	Treasurer, Superintendent or designee, and Program Coordinator (if appropriate)



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TUSCARAWAS COUNTY EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 29, 2002**