

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

**WAYNE COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended June 30, 2005**

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Governmental Consultants**





**Auditor of State  
Betty Montgomery**

Board of Education  
Tri-County Educational Service Center  
741 Winkler Drive  
Wooster, Ohio 44691

We have reviewed the *Report of Independent Accountants* of the Tri-County Educational Service Center, Wayne County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Tri-County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

March 30, 2006

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Tri-County Educational Service Center  
Wayne County  
AUDIT REPORT  
For the Year Ending June 30, 2005

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*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Board of Education  
Tri-County Educational Service Center  
741 Winkler Drive  
Wooster, Ohio 44691

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof and the respective budgetary comparison for the General Fund and SERRC Title VI-B Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 18 to the financial statements, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* GASB Statement No. 40, *Deposits and Investment Risk Disclosures*.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tri-County Educational Service Center's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the 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 basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

***Charles E. Harris & Associates, Inc.***  
February 10, 2006

**Tri-County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The discussion and analysis of Tri-County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key Financial Highlights for 2005 are as follows:

- In total, net assets increased by \$649,885.
- Revenues for governmental activities totaled \$13,971,657 in 2005. Of this total, 33 percent consisted of general revenues while program revenues accounted for the balance of 67 percent.
- Program expenses totaled \$13,321,772. Instructional expenses made up 7 percent of this total while support services accounted for 77 percent. Other expenses rounded out the remaining 16 percent.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand Tri-County Educational Service Center as a financial whole, or an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Tri-County Educational Service Center, the general fund by far is the most significant fund.



**Tri-County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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## **Reporting the Service Center as a Whole**

### *Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Effective with this fiscal year, the *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

## **Reporting the Educational Service Center's Most Significant Funds**

### *Fund Financial Statements*

The analysis of the Educational Service Center's major fund begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund and the SERRC's Title VI-B fund.

### *Governmental Funds*

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Tri-County Educational Service Center**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2005  
Unaudited

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**The Educational Service Center as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2005 compared to 2004:

**Table 1**  
**Net Assets**

	<i>Governmental Activities</i>	
	2005	2004
<b>Assets</b>		
Current and Other Assets	\$ 5,194,065	\$ 4,409,319
Capital Assets, Net	698,021	744,394
<i>Total Assets</i>	5,892,086	5,153,713
<b>Liabilities</b>		
Current and Other Liabilities	1,485,004	1,329,261
Long-Term Liabilities		
Due Within One Year	192,719	260,859
Due in More than One Year	151,613	150,728
<i>Total Liabilities</i>	1,829,336	1,740,848
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	698,021	744,394
Restricted	583,206	322,506
Unrestricted	2,781,523	2,345,965
<i>Total Net Assets</i>	\$4,062,750	\$3,412,865

Total assets increased by \$738,373. Cash and cash equivalents increased by \$308,733. The increase is attributed to an increase in collections from tuition and fees and customer service charges. Liabilities increased as a result of an increase in accounts payables of \$129,825.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center improved as evidenced by the increase in net assets of \$649,885.

**Tri-County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004:

**Table 2**  
**Changes in Net Assets**

	<i>Governmental Activities 2005</i>	<i>Governmental Activities 2004</i>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$5,843,040	\$5,216,079
Operating Grants and Contributions	3,465,270	2,075,422
<i>Total Program Revenues</i>	<u>9,308,310</u>	<u>7,291,501</u>
General Revenues:		
Grants and Entitlements	4,598,777	5,024,911
Investments	64,570	33,849
<i>Total General Revenues</i>	<u>4,663,347</u>	<u>5,058,760</u>
<i>Total Revenues</i>	<u>13,971,657</u>	<u>12,350,261</u>
<b>Program Expenses</b>		
Instruction:		
Regular	377,360	391,032
Special	513,814	481,866
Adult/Continuing	70,986	86,321
Support Services:		
Pupil	2,342,086	2,038,607
Instructional Staff	5,966,107	5,409,210
Board of Education	28,878	40,034
Administration	1,103,447	971,739
Fiscal	420,955	325,720
Business	174,667	173,606
Operation and Maintenance of Plant	197,110	188,277
Transportation	773	0
Central	19,785	30,271
Operation of Non-Instructional Services	2,105,804	2,175,024
<i>Total Program Expenses</i>	<u>13,321,772</u>	<u>12,311,707</u>
Excess Before Transfers	649,885	38,554
<i>Transfers</i>	<u>0</u>	<u>(1,500)</u>
<i>Increase in Net Assets</i>	<u>\$649,885</u>	<u>\$ 37,054</u>

**Governmental Activities**

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures \$649,885. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

**Tri-County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of services for governmental services for fiscal year 2005 compared to fiscal year 2004. The \$4,013,462, Net Cost of Services 2005, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

**Table 3**  
**Governmental Activities**

	<i>Total Cost of Services 2005</i>	<i>Net Cost of Services 2005</i>	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2004</i>
Instruction:				
Regular	\$377,360	(\$36,802)	\$391,032	\$36,155
Special	513,814	107,629	481,866	280,957
Adult/Continuing	70,986	(22,728)	86,321	(18,155)
Support Services:				
Pupil	2,342,086	235,611	2,038,607	1,738,638
Instructional Staff	5,966,107	1,805,027	5,409,210	491,106
Board of Education	28,878	28,878	40,034	40,034
Administration	1,103,447	523,776	971,739	530,974
Fiscal	420,955	223,195	325,720	257,862
Business	174,667	126,412	173,606	135,469
Operation and Maintenance of Plant	197,110	101,561	188,277	154,264
Transportation	773	(341)	0	0
Central	19,785	2,372	30,271	30,271
Operation of Non-Instructional Services	2,105,804	918,872	2,175,024	1,342,631
<b>Total</b>	<b>\$13,321,772</b>	<b>\$4,013,462</b>	<b>\$12,311,707</b>	<b>\$5,020,206</b>

**The Educational Service Center's Major Funds**

The information regarding the Educational Service Center's major funds can be found on page 21&22 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,693,234 and expenditures and other financing uses totaled \$13,836,683. The General Fund balance decreased \$126,315 primarily due to increased cost incurred to provide additional support services. SERRC Title VI-B Fund balance decreased by \$27,787 due to additional special education services provided to school districts during the fiscal year.

**General Fund Budgeting Highlights**

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the general fund.

During the course of fiscal 2005, the Educational Service Center amended its general fund budget, but not significantly. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year, several federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

**Tri-County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

For the general fund, the final budget basis revenue estimate totaled \$11,827,327; this was above the original budget estimate of \$11,822,327. The main difference was increased collections from tuition and fees. The final budget basis expenditures estimate totaled \$14,493,784 compared to original estimates of \$14,621,876. The decrease in the budget can be attributed to less spending on pupils and instructional staff expenditures.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2005, the Educational Service Center had \$698,021 invested in land, building and building improvements, furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2005 values compared to 2004.

**Table 4**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	<i>Governmental Activities</i>	
	<i>2005</i>	<i>2004</i>
Land	\$77,981	\$77,981
Buildings and Improvements	376,101	376,101
Furniture and Fixtures	728,696	732,252
Accumulated Depreciation	(484,757)	(441,940)
<i>Totals</i>	<u>\$698,021</u>	<u>\$744,394</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 10 of the basic financial statements.

**Current Financial Related Activities**

The Tri-County Educational Service Center is financially sound. The Board and administration closely monitor its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

**Contacting the Educational Service Center District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jill Meng, Treasurer, at Tri-County Educational Service Center, 741 Winkler Drive, Wooster, Ohio 44691 or calling 330-345-6771.

# Tri-County Educational Service Center

## Statement of Net Assets

June 30, 2005

	<b><i>Governmental Activities</i></b>
<b><i>Assets</i></b>	
Equity in Pooled Cash and Cash Equivalents	\$3,520,426
Cash and Cash Equivalents with Fiscal Agent	650,721
Accrued Interest Receivable	3,942
Intergovernmental Receivable	1,018,976
Non-Depreciable Capital Assets	77,981
Depreciable Capital Assets, net	620,040
<b><i>Total Assets</i></b>	<b>5,892,086</b>
<b><i>Liabilities</i></b>	
Accounts Payable	336,314
Accrued Wages and Benefits	913,014
Intergovernmental Payable	180,101
Claims Payable	41,676
Matured Compensated Absences Payable	13,899
Long-Term Liabilities:	
Due Within One Year	192,719
Due in More Than One Year	151,613
<b><i>Total Liabilities</i></b>	<b>1,829,336</b>
<b><i>Net Assets</i></b>	
Invested in Capital Assets, Net of Related Debt	698,021
Restricted for Other Purposes	583,206
Unrestricted	2,781,523
<b><i>Total Net Assets</i></b>	<b>\$4,062,750</b>

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2005*

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>			
Instruction:			
Regular	\$377,360	\$204,276	\$209,886
Special	513,814	258,962	147,223
Adult/Continuing	70,986	88,393	5,321
Support Services:			
Pupils	2,342,086	1,659,678	446,797
Instructional Staff	5,966,107	2,226,887	1,934,193
Board of Education	28,878	0	0
Administration	1,103,447	64,775	514,896
Fiscal	420,955	117,861	79,899
Business	174,667	48,255	0
Operation and Maintenance of Plant	197,110	0	95,549
Pupil Transportation	773	0	1,114
Central	19,785	14,413	3,000
Operation of Non-Instructional Services	<u>2,105,804</u>	<u>1,159,540</u>	<u>27,392</u>
<b>Totals</b>	<u><u>\$13,321,772</u></u>	<u><u>\$5,843,040</u></u>	<u><u>\$3,465,270</u></u>
<b>General Revenues</b>			
Grants and Entitlements not Restricted to Specific Programs			4,598,777
Investment Earnings			<u>64,570</u>
<b>Total General Revenues</b>			<u>4,663,347</u>
<b>Change in Net Assets</b>			649,885
<b>Net Assets Beginning of Year</b>			<u>3,412,865</u>
<b>Net Assets End of Year</b>			<u><u>\$4,062,750</u></u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	<u><i>General Fund</i></u>	<u><i>SERRC Title VI-B</i></u>	<u><i>Other Governmental Funds</i></u>	<u><i>Total Governmental Funds</i></u>
<b><i>Assets</i></b>				
Equity in Pooled Cash and Cash Equivalents	\$3,133,895	\$112,148	\$274,383	\$3,520,426
Accrued Interest Receivable	3,942	0	0	3,942
Intergovernmental Receivable	615,026	352,075	51,875	1,018,976
<b><i>Total Assets</i></b>	<u><u>\$3,752,863</u></u>	<u><u>\$464,223</u></u>	<u><u>\$326,258</u></u>	<u><u>\$4,543,344</u></u>
<b><i>Liabilities</i></b>				
Accounts Payable	\$241,750	\$12,470	\$82,094	\$336,314
Accrued Wages and Benefits	859,603	26,597	26,814	913,014
Intergovernmental Payable	135,636	4,463	4,198	144,297
Matured Compensated Absences Payable	13,899	0	0	13,899
Deferred Revenue	0	241,037	38,988	280,025
<b><i>Total Liabilities</i></b>	<u><u>1,250,888</u></u>	<u><u>284,567</u></u>	<u><u>152,094</u></u>	<u><u>1,687,549</u></u>
<b><i>Fund Balances</i></b>				
Reserved for Encumbrances	111,857	68,939	134,597	315,393
Unreserved, Undesignated, Reported in:				
General Fund	2,390,118	0	0	2,390,118
Special Revenue Funds	0	110,717	39,567	150,284
<b><i>Total Fund Balances</i></b>	<u><u>2,501,975</u></u>	<u><u>179,656</u></u>	<u><u>174,164</u></u>	<u><u>2,855,795</u></u>
<b><i>Total Liabilities and Fund Balances</i></b>	<u><u>\$3,752,863</u></u>	<u><u>\$464,223</u></u>	<u><u>\$326,258</u></u>	<u><u>\$4,543,344</u></u>

See Accompanying Notes to the Basic Financial Statements



**Tri-County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities*  
 June 30, 2005

<b><i>Total Governmental Fund Balances</i></b>	<b>\$2,855,795</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Intergovernmental assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	280,025
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	698,021
Intergovernmental Payable includes contractually required pension obligations not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(35,804)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	609,045
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(344,332)</u>
<b><i>Net Assets of Governmental Activities</i></b>	<b><u><u>\$4,062,750</u></u></b>

See Accompanying Notes to the Basic Financial Statements

**Tri-County County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	<u>General Fund</u>	<u>SERRC Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Intergovernmental	\$5,056,260	\$1,116,834	\$1,438,476	\$7,611,570
Interest	64,570	0	0	64,570
Tuition and Fees	233,792	0	0	233,792
Gifts and Donations	134,229	0	0	134,229
Customer Sales and Services	5,609,248	0	0	5,609,248
Miscellaneous	38,223	0	0	38,223
<b>Total Revenues</b>	<u>11,136,322</u>	<u>1,116,834</u>	<u>1,438,476</u>	<u>13,691,632</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	227,274	0	160,817	388,091
Special	521,300	9,700	12,187	543,187
Adult/Continuing	70,986	0	0	70,986
Support Services:				
Pupils	2,251,712	39,864	152,509	2,444,085
Instructional Staff	4,510,640	589,218	1,024,682	6,124,540
Board of Education	29,175	0	0	29,175
Administration	753,409	395,315	21,910	1,170,634
Fiscal	354,976	41,640	33,005	429,621
Business	183,338	0	0	183,338
Operation and Maintenance of Plant	115,715	68,085	587	184,387
Pupil Transportation	0	0	773	773
Central	13,785	0	6,000	19,785
Operation of Non-Instructional Services	2,231,929	799	15,353	2,248,081
<b>Total Expenditures</b>	<u>11,264,239</u>	<u>1,144,621</u>	<u>1,427,823</u>	<u>13,836,683</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(127,917)</u>	<u>(27,787)</u>	<u>10,653</u>	<u>(145,051)</u>
<b>Other Financing Sources</b>				
Proceeds from the Sale of Capital Assets	1,602	0	0	1,602
<b>Total Other Financing Sources</b>	<u>1,602</u>	<u>0</u>	<u>0</u>	<u>1,602</u>
<b>Net Change in Fund Balances</b>	(126,315)	(27,787)	10,653	(143,449)
<b>Fund Balances Beginning of Year</b>	<u>2,628,290</u>	<u>207,443</u>	<u>163,511</u>	<u>2,999,244</u>
<b>Fund Balances End of Year</b>	<u>\$2,501,975</u>	<u>\$179,656</u>	<u>\$174,164</u>	<u>\$2,855,795</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County County Educational Service Center**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

**Net Change in Fund Balances - Total Governmental Funds** (\$143,449)

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Intergovernmental revenues in the statement of activities that do not  
provide current financial resources are not reported as revenues in the funds. 280,025

Governmental funds report capital outlay as expenditures.  
However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	50,504	
Capital Assets - Deletions	(12,816)	
Depreciation	(84,061)	
Total		(46,373)

Some expenses reported in the statement of activities, such as compensated absences  
and pension obligations, do not require the use of current financial resources and  
therefore are not reported as expenditures in the governmental funds.

Pension Contributions	(2,242)	
Compensated Absences	67,255	
Total		65,013

The internal service fund used by management to charge the costs of  
health insurance is included in the statement of activities and not on the  
governmental fund expenditures. This is the amount that revenues exceeded  
expenses during the year. 494,669

*Changes in Net Assets of Governmental Activities* \$649,885

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
	<i>Original</i>	<i>Final</i>		
<b>Revenues</b>				
Intergovernmental	\$5,648,146	\$5,648,146	\$5,265,885	(\$382,261)
Interest	45,000	45,000	62,169	17,169
Tuition and Fees	289,500	294,500	233,792	(60,708)
Gifts and Donations	3,250	3,250	134,229	130,979
Customers Sales and Services	5,800,431	5,800,431	5,670,850	(129,581)
Miscellaneous	36,000	36,000	38,223	2,223
<i>Total Revenues</i>	<u>11,822,327</u>	<u>11,827,327</u>	<u>11,405,148</u>	<u>(422,179)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	230,295	230,295	226,496	3,799
Special	688,092	613,092	531,713	81,379
Adult/Continuing	165,381	170,381	73,134	97,247
Support Services:				
Pupils	2,441,469	2,333,470	2,212,306	121,164
Instructional Staff	6,409,033	6,365,033	4,639,593	1,725,440
Board of Education	65,525	65,525	33,120	32,405
Administration	726,364	806,271	775,380	30,891
Fiscal	426,187	426,187	360,988	65,199
Business	247,364	247,364	184,989	62,375
Operation and Maintenance of Plant	285,201	285,201	119,410	165,791
Central	34,516	34,516	19,566	14,950
Operation of Non-Instructional Services	2,702,449	2,716,449	2,251,777	464,672
Capital Outlay	200,000	200,000	0	200,000
<i>Total Expenditures</i>	<u>14,621,876</u>	<u>14,493,784</u>	<u>11,428,472</u>	<u>3,065,312</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,799,549)</u>	<u>(2,666,457)</u>	<u>(23,324)</u>	<u>2,643,133</u>
<b>Other Financing Sources</b>				
Proceeds from the Sale of Capital Assets	0	0	1,602	1,602
<i>Total Other Financing Sources</i>	<u>0</u>	<u>0</u>	<u>1,602</u>	<u>1,602</u>
<i>Net Change in Fund Balance</i>	<u>(2,799,549)</u>	<u>(2,666,457)</u>	<u>(21,722)</u>	<u>2,644,735</u>
<i>Fund Balance Beginning of Year</i>	2,375,228	2,375,228	2,375,228	0
Prior Year Encumbrances Appropriated	441,225	441,225	441,225	0
<i>Fund Balance End of Year</i>	<u>\$16,904</u>	<u>\$149,996</u>	<u>\$2,794,731</u>	<u>\$2,644,735</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*SERRC - Title VI-B Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
	<u><i>Original</i></u>	<u><i>Final</i></u>		
<b>Revenues</b>				
Intergovernmental	\$1,213,391	\$1,413,391	\$1,061,316	(\$352,075)
<i>Total Revenues</i>	<u>1,213,391</u>	<u>1,413,391</u>	<u>1,061,316</u>	<u>(352,075)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Special	10,000	10,699	10,699	0
Support Services:				
Pupils	45,094	46,308	45,805	503
Instructional Staff	719,907	951,051	676,179	274,872
Administration	549,543	509,124	412,383	96,741
Fiscal	41,640	49,140	41,640	7,500
Operation and Maintenance of Plant	76,654	76,517	73,118	3,399
Operation of Non-Instructional Services	800	799	799	0
<i>Total Expenditures</i>	<u>1,443,638</u>	<u>1,643,638</u>	<u>1,260,623</u>	<u>383,015</u>
<i>Excess of Revenues Under Expenditures</i>	(230,247)	(230,247)	(199,307)	30,940
<i>Fund Balance Beginning of Year</i>	152,419	152,419	152,419	0
Prior Year Encumbrances Appropriated	<u>77,828</u>	<u>77,828</u>	<u>77,828</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$30,940</u>	<u>\$30,940</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2005*

	<u><i>Self-Insurance Fund</i></u>
<b><i>Assets</i></b>	
Cash and Cash Equivalents with Fiscal Agent	<u>\$650,721</u>
<i>Total Assets</i>	<u>650,721</u>
<b><i>Liabilities</i></b>	
Claims Payable	<u>41,676</u>
<i>Total Liabilities</i>	<u>41,676</u>
<b><i>Net Assets</i></b>	
Unrestricted	<u>609,045</u>
<i>Total Net Assets</i>	<u><u>\$609,045</u></u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<i>Self-Insurance Fund</i>
<b><i>Operating Revenues</i></b>	
Charges for Services	\$1,520,858
Other	16,660
<i>Total Operating Revenues</i>	1,537,518
 <b><i>Operating Expenses</i></b>	
Purchased Services	348,472
Claims	699,177
<i>Total Operating Expenses</i>	1,047,649
 <i>Operating Income</i>	489,869
 <b><i>Non-Operating Revenues</i></b>	
Interest	4,800
<i>Total Non-Operating Revenues</i>	4,800
 <i>Net Income</i>	494,669
 <i>Net Assets at Beginning of Year</i>	114,376
<i>Net Assets at End of Year</i>	\$609,045

See Accompanying Notes to the Basic Financial Statements

**Tri-County Educational Service Center**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2005*

	<i>Self-Insurance Fund</i>
<b><i>INCREASE IN CASH AND CASH EQUIVALENTS</i></b>	
<b><i>Cash Flows from Operating Activities</i></b>	
Cash Received from Customers	\$1,520,858
Cash Received from Other Operating Sources	16,660
Cash Payments to Suppliers for Goods and Services	(348,472)
Cash Payments for Claims	(725,501)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	463,545
	<hr/>
<b><i>Cash Flows from Investing Activities</i></b>	
Interest on Investments	4,800
	<hr/>
<i>Net Cash Provided by Investing Activities</i>	4,800
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	468,345
<i>Cash and Cash Equivalents at Beginning of Year</i>	182,376
	<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$650,721
	<hr/> <hr/>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i></b>	
<i>Operating Income</i>	\$489,869
	<hr/>
<i>Adjustments:</i>	
Changes in Liabilities:	
Decrease in Claims Payable	(26,324)
	<hr/>
<i>Total Adjustments</i>	(26,324)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	\$463,545
	<hr/> <hr/>

See Accompanying Notes to the Basic Financial Statements



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

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 1 - Description of the Educational Service Center**

The Tri-County Educational Service Center (Educational Service Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The Educational Service Center operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne and Ashland Counties. The Board controls the Educational Service Center's instructional support services staffed by 97 noncertificated and 119 certificated teaching personnel who provide services to 29,541 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, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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

The Educational Service Center is associated with certain organizations which are defined as Jointly Governed Organizations and Public Entity Risk Pools. The Educational Service Center is also the fiscal agent for the Lincoln Way Special Education Regional Resource Center. These organizations are presented in Notes 7, 8 and 9 to the basic financial statements. These organizations include the Midland Council of Governments Tri-County Computer Service Association, the Ohio School Boards Associations Workers' Compensation Group Rating Program, the Ohio Mid-Eastern Regional Education Service Agency, the Schools of Ohio Risk Sharing Authority and the Lincoln Way Special Education Regional Resource Center.

**Note 2 - Summary of Significant Accounting Policies**

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

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

***Fund Financial Statements*** During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. The Educational Service Center has no fiduciary funds.

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The various funds of the Educational Service Center are grouped into the categories governmental and proprietary.

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service Center's major governmental funds:

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

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**B. Fund Accounting** (continued)

**General Fund** The general fund is the general 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.

**SERRC – Title VI-B Special Revenue Fund** The SERRC – Title VI-B fund accounts for intergovernmental revenues that are used to offer special education services to local districts.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Types** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the operation of the Educational Service Center's self-insurance program for employee medical benefits.

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Measurement Focus** (continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Educational Service Center finances and meets the cash flow needs of its internal service fund.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "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. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**D. Basis of Accounting** (continued)

**Expenditures/Expenses** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 governmental funds.

**E. Budgetary Data**

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**F. Cash and Cash Equivalents**

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

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**F. Cash and Cash Equivalents** (continued)

The Educational Service Center invested funds in the State Treasury Asset Reserve (“STAR Ohio”) during fiscal year 2005. 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, 2005.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2005, the general fund received interest earned in the amount of \$64,570. The general fund interest includes approximately \$7,089 assigned from other Educational Service Center funds.

**G. Capital Assets**

The Educational Service Center’s only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center’s capitalization threshold is \$1,000. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; 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.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<i>Description</i>	<i>Estimated Lives</i>
Land Improvements	30 years
Buildings and Buildings Improvements	20 - 75 years
Furniture and Fixtures	7 - 15 years

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable 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 method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

**J. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other government.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**K. Fund Balance Reserves**

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

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**L. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Educational Service Center, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds.

**M. 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 transfers.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

**O. Estimates**

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

**Note 3 - Budgetary Basis of Accounting**

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

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



**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

**Note 3 - Budgetary Basis of Accounting** (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements on a fund type basis for the general fund and major special revenue fund.

*Net Change in Fund Balance*

	<i>General</i>	<i>SERRC – Title VI-B</i>
<i>GAAP Basis</i>	(\$126,315)	(\$27,787)
Net Adjustment for Revenue Accruals	268,826	(55,518)
Net Adjustment for Expenditure Accruals	174,936	(34,793)
Adjustment for Encumbrances	(339,169)	(81,209)
<i>Budget Basis</i>	(\$21,722)	(\$199,307)

**Note 4 - Deposits and Investments**

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

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

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

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

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;

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

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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

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

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.

**Deposits** At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$1,118,741. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2005, \$987,701 of the Educational Service Center's \$1,677,701 bank balance was exposed to custodial risk as discussed below, while \$690,000 was covered by Federal Deposit Insurance Corporation.

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

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

**Note 4 - Deposits and Investments (continued)**

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve bank in the name of the Educational Service Center.

**Investments** As of June 30, 2005, the Educational Service Center had the following investments and maturities:

<i>Investment Type</i>	<i>Fair Value</i>	<i>6 months Or Less</i>
STAROhio	\$1,906,685	\$1,906,685
Repurchase Agreement	495,000	495,000
<i>Totals</i>	<u>\$2,401,685</u>	<u>\$2,401,685</u>

Since the Educational Service Center invests in overnight repurchase agreements and STAROhio, the average investment maturity is daily.

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

**Credit Risk.** The investments in STAROhio were rated by Standard & Poor's and has been assigned an AAAM money market rating.

**Concentration of Credit Risk.** The Educational Service Center places no limit on the amount that may be invested to any one issuer. At June 30, 2005, the Educational Service Center invested 26 percent of its investments in STAROhio and 74 percent in repurchase agreements.

**Note 5 - Receivables**

Receivables at June 30, 2005, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Intergovernmental	\$218,930
Customer Services	396,096
<i>Total General Fund</i>	<u>615,026</u>
<i>Special Revenue Funds:</i>	
Title I	4,538
Title VI-B	352,074
Miscellaneous Federal Grants	47,338
<i>Total Special Revenue Funds</i>	<u>403,950</u>
<i>Total Intergovernmental Receivables</i>	<u>\$1,018,976</u>

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 6 - State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$47.02 for each of the 29,541 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

**Note 7 - Jointly Governed Organizations**

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

**Note 8 - Public Entity Risk Pools**

**A. Insurance Purchasing Pool**

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

The Educational Service Center also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the Educational Service Center's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a non-profit corporation under provisions of Ohio Revised Code 2744.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005 (continued)*

**Note 8 - Public Entity Risk Pools (continued)**

**B. Claims Servicing Pool**

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

**Note 9 - Fiscal Agent**

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

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<i>Balance at 6/30/04</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/05</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$77,981	\$0	\$0	\$77,981
<i>Total Capital Assets, not being depreciated</i>	<u>77,981</u>	<u>0</u>	<u>0</u>	<u>77,981</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Buildings Improvements	376,101	0	0	376,101
Furniture and Fixtures	732,252	50,504	(54,059)	728,697
<i>Total Capital Assets, being depreciated</i>	<u>1,108,353</u>	<u>50,504</u>	<u>(54,059)</u>	<u>1,104,798</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Building Improvements	(31,518)	(12,914)	0	(44,432)
Furniture and Fixtures	(410,422)	(71,147)	41,243	(440,327)
<i>Total Accumulated Depreciation</i>	<u>(441,940)</u>	<u>(84,061)</u>	<u>41,243</u>	<u>(484,758)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$744,394</u>	<u>\$(33,557)</u>	<u>\$(12,816)</u>	<u>\$698,021</u>

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

**Note 10 - Capital Assets (continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,837
Support Services:	
Pupil	6,973
Instructional Staff	48,197
Administration	8,487
Fiscal	1,138
Business	689
Operation and Maintenance of Plant	12,936
Operation of Non-Instructional Services	<u>3,804</u>
Total Depreciation Expense	<u><u>\$84,061</u></u>

There was no significant construction in progress at June 30, 2005.

**Note 11 - 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 2005, the Educational Service Center contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance.

General liability coverage is \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Willis Risk Solutions is the actuary and reinsurance broker. Property coverage is provided by the pool and reinsurer Travelers Insurance Company and includes coverage for crime, employee dishonesty and inland marine. Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 8). The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health and dental insurances are available to most employees through a self-insurance internal service fund. The claims liability of \$41,676 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years were as follows:

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2004	\$68,451	\$739,448	\$739,899	\$68,000
2005	68,000	672,853	699,177	41,676

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

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 12 - 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 stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 2005, 10.57 percent was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2005, 2004, and 2003 were \$181,842, \$135,911, and \$127,760, respectively, equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

**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 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 12 - Defined Benefit Pension Plan (continued)**

**B. State Teachers Retirement System (continued)**

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2005, 2004, and 2003 were \$752,049, \$647,155, and \$615,147, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions have been contributed for all three fiscal years.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2005, two of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

**Note 13 - Post Employment Benefits**

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$57,850 during the 2005 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.



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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005 (continued)*

**Note 13 - Post Employment Benefits** (continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$94,811, during the fiscal year. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was 267.5 million, which is about 168% of next years projected net health care cost of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. SERS has 58,123 participants currently eligible to receive benefits.

**Note 14 - Employee Benefits**

**A. Compensated Absences**

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

**B. Life Insurance**

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

**Note 15 - Long-Term Obligations**

Changes in long-term obligations during fiscal year 2005, are as follows:

	<i>Principal Outstanding July 1, 2004</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 2005</i>	<i>Due Within One Year</i>
Compensated Absences	\$411,587	\$47,374	\$114,629	\$344,332	\$192,719
<b>Total Long-Term Obligations</b>	<b>\$411,587</b>	<b>\$47,374</b>	<b>\$114,629</b>	<b>\$344,332</b>	<b>\$192,719</b>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

**Tri-County Educational Service Center**  
**Wayne County**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005 (continued)*

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**Note 16 - 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, 2005.

***B. Litigation***

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

**Note 17 - School Funding Issue**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Note 18 - Implementation of New Pronouncements**

For fiscal year 2005, the Educational Service Center has implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers". There were no restatements caused by the implementation of these statements, although GASB Statement No. 40 changed the footnote requirements for deposits and investments.

Tri-County Educational Service Center  
Schedule of Federal Awards Expenditures  
For the Year Ending June 30, 2005

Federal Grantor/Pass Through Grantor Number/Program Title	CFDA Number	Federal Receipts	Federal Expenditures
<b><u>U.S. Department of Education</u></b>			
Pass through Ohio Department of Education			
Title I - Financial Assistance to Meet Special Education Needs of Disadvantaged Children			
Title I - FY 05	84.010	\$ 73,533	\$ 51,140
<b>Total Title I</b>		73,533	51,140
Special Education Cluster			
Title VI - B Preschool Access - FY 04	84.027	-	3,390
Title VI - B Preschool Access - FY 05	84.027	12,356	11,062
Title VI - B Preschool Autism - FY 05	84.027	35,140	31,624
Serrc VI - B IPD, EAP, IRC - FY 04	84.027	55,520	282,377
Serrc VI - B IPD, EAP, IRC - FY 05	84.027	938,300	850,959
Serrc State Improvement - SIG - FY05	84.027	23,962	1,722
Serrc Highly Qualified Teacher - FY 06	84.027	20,000	-
ED handicapped Preschool	84.173	193,744	174,197
<b>Total Special Education Cluster</b>		1,279,022	1,355,331
21st Century			
21st Century Learning Grant - FY05	84.287	300,000	208,629
<b>Total 21st Century</b>		300,000	208,629
School Renovation Grants			
Federal Emergency Repair	84.352	-	587
<b>Total School Renovation Grants</b>		-	587
Title III			
Title III LEP - FY04	84.365	-	5,207
Title III LEP - FY05	84.365	13,984	13,984
<b>Total Title III</b>		13,984	19,191
<b>Total Department of Education</b>		1,666,539	1,634,878
<b><u>U.S. Department of Health &amp; Human Services</u></b>			
Pass through Ohio Department of MRDD			
Medical Assistance Program - FY 05	93.778	1,072,417	1,072,417
<b>Total Department of Health &amp; Human Services</b>		1,072,417	1,072,417
<b><u>Corporation for National and Community Service</u></b>			
ODJFS Americorps - FY 05	94.006	8,208	7,440
<b>Total Corporation for National and Community Service</b>		8,208	7,440
<b><u>Institute of Museum and Library Services</u></b>			
Last Library Automation	45.310	42,264	41,364
<b>Total Institute of Museum and Library Services</b>		42,264	41,364
<b>Total Federal Expenditures</b>		\$ 2,789,428	\$ 2,756,099

See accompanying Notes to the Schedule of Federal Awards Expenditures

**Tri-County Educational Service Center  
Wayne County, Ohio  
Notes to the Federal Awards Expenditure Schedule  
For the Year Ended June 30, 2005**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

**INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 10, 2006, wherein we noted the Educational Service Center implemented GASB Technical Bulletin No. 2004-2 and GASB Statement No. 40. 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.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated February 10, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, 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*.

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

***Charles E. Harris & Associates, Inc.***  
**February 10, 2006**

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

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

**Compliance**

We have audited the compliance of the Tri-County Educational Service Center with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 intended for the information and use of management, the Governing Board, 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.

*Charles E. Harris & Associates, Inc.*  
February 10, 2006



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505**

**Tri-County Educational Service Center  
Wayne County  
June 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)**  
**OMB CIRCULAR A-133 SECTION .505**

**Tri-County Educational Service Center**  
**Wayne County**  
**June 30, 2005**

<p><b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b></p>
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**None**

<p><b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b></p>
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**None.**

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<b>FINDING NUMBER</b>	<b>FUNDING SUMMARY</b>	<b>FULLY CORRECTED?</b>	<b>Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
<b>2004-001</b>	<b>OMB Circular A-87, Attachment A, Subpart C1a-The Educational Service Center made payments that were unallowable under federal awards.</b>	<b>Yes</b>	<b>The District no longer makes advance payments to UPS and United States Postal Service.</b>





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**TRI-COUNTY EDUCATIONAL SERVICE CENTER**

**WAYNE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 13, 2006**