

Tri-County Educational Service Center
Wayne County, Ohio

Audited Financial Statements

June 30, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Tri-County Educational Service Center, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 20, 2012

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

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September 7, 2012

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

INDEPENDENT AUDITOR'S REPORT

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 ESC), as of and for the year ended June 30, 2012, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of ESC's management. Our responsibility is to express opinions 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ESC as of June 30, 2012, and the respective changes in cash financial position.

For the year ended June 30, 2012, the ESC revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the 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.

We conducted our audit to opine on the ESC's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets and governmental activities. The schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the schedule of expenditures of federal awards provide additional information, but are not part of the basic financial statements. However these tables and the schedule of expenditures of federal awards are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the schedule of expenditures of federal awards were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Hea & Associates, Inc.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The discussion and analysis of the Tri-County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the ESC's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Net assets of the governmental activities increased \$255,547, which represents a 6 percent increase from fiscal year 2011.

Using this Annual Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole ESC. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2012, the general fund is the ESC's most significant fund.

Basis of Accounting

The ESC has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

These two statements report the ESC's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, governmental activities include the ESC's programs and services, including instruction, support services and operation of non-instructional services.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major funds begins on page 8. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental fund is the general fund.

Governmental Funds - Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Fund – The ESC maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

Reporting the ESC's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the ESC. These funds are not reflected in the government-wide financial statements because the resources are not available to support the ESC's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The ESC as a Whole

Table 1 provides a summary of the ESC's net assets for fiscal year 2012 compared to 2011.

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	
	2012	Restated 2011
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 3,136,500	\$ 2,564,815
Cash and Cash Equivalents with Fiscal Agents	1,159,845	1,475,983
<i>Total Assets</i>	\$ 4,296,345	\$ 4,040,798
Net Assets		
Restricted for Other Purposes	\$ 217,342	\$ 213,942
Unrestricted	4,079,003	3,826,856
<i>Total Net Assets</i>	\$ 4,296,345	\$ 4,040,798

A portion of the ESC's net assets, \$217,342 or 5 percent, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$4,079,003 may be used to meet the ESC's ongoing obligations to the ESC's students.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Table 2 shows the changes in net assets for fiscal year 2012. The ESC has changed the presentation of its financial statements from Generally Accepted Accounting Principles (GAAP) to cash basis for fiscal year 2012. Since this is the first year the ESC has prepared financial statements on a cash basis, receipts and disbursements comparisons to fiscal year 2011 are not available. This table will present two fiscal years in side-by-side comparisons in future reporting years.

(Table 2)
Changes in Net Assets – Cash Basis

	Governmental Activities
	2012
Receipts	
<i>Program Receipts</i>	
Charges for Services and Sales	\$ 10,062,340
Operating Grants and Contributions	3,726,803
<i>Total Program Receipts</i>	13,789,143
<i>General Receipts</i>	
Grants and Entitlements not Restricted to Specific Programs	735,028
Investment Earnings	25,902
Miscellaneous	40,011
<i>Total General Receipts</i>	800,941
<i>Total Receipts</i>	14,590,084
Program Disbursements	
Instruction:	
Regular	599,321
Special	2,852,663
Adult/Continuing	58,470
Other	19,964
Support Services:	
Pupils	3,711,235
Instructional Staff	1,730,219
Board of Education	44,760
Administration	1,076,199
Fiscal	381,806
Business	139,947
Operation and Maintenance of Plant	313,031
Pupil Transportation	79,358
Central	2,646,706
Operation of Non-Instructional Services:	
Community Services	680,858
<i>Total Program Disbursements</i>	14,334,537
<i>Change in Net Assets</i>	\$ 255,547

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Governmental Activities

Total governmental disbursements of \$14,334,537 were offset by program receipts of \$13,789,143 and general receipts of \$800,941. Program revenues supported 96 percent of the total governmental expenses.

The primary sources of receipts for governmental activities are derived from contracted fees for services provided to other entities. This receipt source represents 70 percent of total governmental receipts.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported unrestricted State grants and entitlements, and other general receipts not restricted to a specific program. Comparisons to 2011 have not been made since they are not available.

(Table 3)
Governmental Activities – Cash Basis

	2012	
	Total Cost of Service	Net Cost of Service
<i>Program Disbursements</i>		
Instruction:		
Regular	\$ 599,321	\$ (49,349)
Special	2,852,663	219,556
Adult/Continuing	58,470	(7,347)
Other	19,964	(4,947)
Support Services:		
Pupils	3,711,235	(247,795)
Instructional Staff	1,730,219	(46,220)
Board of Education	44,760	(2,048)
Administration	1,076,199	(103,052)
Fiscal	381,806	(23,473)
Business	139,947	(13,320)
Operation and Maintenance of Plant	313,031	(39,232)
Pupil Transportation	79,358	197
Central	2,646,706	(172,020)
Operation of Non-Instructional Services:		
Community Services	680,858	(56,344)
<i>Total</i>	\$ 14,334,537	\$ (545,394)

For all governmental activities, program receipt support is 96 percent. The primary support of the ESC is contracted fees and services provided to other districts.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The ESC's Funds

The ESC's governmental funds are accounted for using the cash basis of accounting.

The ESC's governmental funds reported a combined fund balance of \$3,136,500, which is higher than the prior year balance of \$2,564,815.

The general fund had total cash receipts of \$13,323,427. The cash disbursements of the general fund totaled \$12,735,392. The general fund's fund balance increased \$568,285 in 2012. The increase in fund balance can be attributed to receipts outpacing disbursements.

Current Issues

The ESC is currently financially viable. The Board and administration closely monitor its receipts and disbursements in accordance with Board policy. The ESC is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, including the state 10 percent reduction for 2012, the ESC continues to provide the best services possible and to be fiscally responsible.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact David Denbow, Treasurer, Tri-County ESC, 741 Winkler Drive, Wooster, Ohio 44691, or by calling 330-345-6771.

Tri-County Educational Service Center
Statement of Net Assets - Cash Basis
June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,136,500
Cash and Cash Equivalents with Fiscal Agents	<u>1,159,845</u>
<i>Total Assets</i>	<u><u>\$ 4,296,345</u></u>
Net Assets	
Restricted for Other Purposes	\$ 217,342
Unrestricted	<u>4,079,003</u>
<i>Total Net Assets</i>	<u><u>\$ 4,296,345</u></u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2012

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 599,321	\$ 384,415	\$ 165,557	\$ (49,349)
Special	2,852,663	2,427,170	645,049	219,556
Adult/Continuing	58,470	51,123	0	(7,347)
Other	19,964	0	15,017	(4,947)
Support Services:				
Pupils	3,711,235	2,468,550	994,890	(247,795)
Instructional Staff	1,730,219	675,920	1,008,079	(46,220)
Board of Education	44,760	30,619	12,093	(2,048)
Administration	1,076,199	636,617	336,530	(103,052)
Fiscal	381,806	215,506	142,827	(23,473)
Business	139,947	90,775	35,852	(13,320)
Operation and Maintenance of Plant	313,031	196,278	77,521	(39,232)
Pupil Transportation	79,358	62,039	17,516	197
Central	2,646,706	2,251,335	223,351	(172,020)
Operation of Non-Instructional Services:				
Community Services	680,858	571,993	52,521	(56,344)
Totals	<u>\$ 14,334,537</u>	<u>\$ 10,062,340</u>	<u>\$ 3,726,803</u>	<u>(545,394)</u>

General Receipts

Grants and Entitlements not Restricted to Specific Programs	735,028
Investment Earnings	25,902
Miscellaneous	40,011
<i>Total General Receipts</i>	<u>800,941</u>
Change in Net Assets	255,547
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>4,040,798</u>
<i>Net Assets End of Year</i>	<u>\$ 4,296,345</u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,919,158	\$ 217,342	\$ 3,136,500
Fund Balances			
Restricted	\$ 0	\$ 217,342	\$ 217,342
Committed	50,000	0	50,000
Assigned	1,556,818	0	1,556,818
Unassigned	1,312,340	0	1,312,340
<i>Total Fund Balances</i>	<u>\$ 2,919,158</u>	<u>\$ 217,342</u>	<u>\$ 3,136,500</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 - Cash Basis
June 30, 2012*

Total Governmental Fund Balances	\$ 3,136,500
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*Amounts reported for governmental activities in the
statement of net assets are different because:*

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net assets.

1,159,845

Net Assets of Governmental Activities

\$ 4,296,345

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$ 3,084,477	\$ 1,240,784	\$ 4,325,261
Investment Income	998	0	998
Tuition and Fees	1,792,738	0	1,792,738
Gifts and Donations	136,570	0	136,570
Charges for Services	8,269,602	0	8,269,602
Miscellaneous	39,042	969	40,011
<i>Total Receipts</i>	<u>13,323,427</u>	<u>1,241,753</u>	<u>14,565,180</u>
Disbursements			
Current:			
Instruction:			
Regular	443,489	137,399	580,888
Special	2,687,553	57,998	2,745,551
Adult/Continuing	58,470	0	58,470
Other	0	19,964	19,964
Support Services:			
Pupils	3,497,064	132,614	3,629,678
Instructional Staff	994,092	725,411	1,719,503
Board of Education	44,760	0	44,760
Administration	965,403	73,217	1,038,620
Fiscal	315,039	58,614	373,653
Business	132,701	0	132,701
Operation and Maintenance of Plant	309,403	0	309,403
Pupil Transportation	62,039	17,319	79,358
Central	2,595,295	6,000	2,601,295
Operation of Non-Instructional Services:			
Community Services	630,084	29,567	659,651
<i>Total Disbursements</i>	<u>12,735,392</u>	<u>1,258,103</u>	<u>13,993,495</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>588,035</u>	<u>(16,350)</u>	<u>571,685</u>
Other Financing Sources (Uses)			
Advances In	85,300	105,050	190,350
Advances Out	(105,050)	(85,300)	(190,350)
<i>Total Other Financing Sources (Uses)</i>	<u>(19,750)</u>	<u>19,750</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	568,285	3,400	571,685
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>2,350,873</u>	<u>213,942</u>	<u>2,564,815</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,919,158</u>	<u>\$ 217,342</u>	<u>\$ 3,136,500</u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds \$ 571,685

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

Internal Service funds charge insurance costs to other funds. The entity-
wide statements eliminate governmental fund disbursements and
related internal service fund charges. Governmental activities
report allocated net internal service fund receipts (disbursements). (316,138)

Change in Net Assets of Governmental Activities \$ 255,547

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
June 30, 2012

	Governmental Activities
	Internal Service Fund
Assets	
Cash and Cash Equivalents with Fiscal Agents	\$ 1,159,845
Net Assets	
Unrestricted	\$ 1,159,845

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
Operating Receipts	
Charges for Services	\$ 1,718,869
Operating Disbursements	
Purchased Services	538,659
Claims	1,521,252
<i>Total Operating Disbursements</i>	2,059,911
<i>Operating Income (Loss)</i>	(341,042)
Non-Operating Receipts (Disbursements)	
Interest	24,904
<i>Change in Net Assets</i>	(316,138)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	1,475,983
<i>Net Assets End of Year</i>	\$ 1,159,845

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>10,806</u>
Net Assets	
Held for Medicaid Administrative Claims	\$ <u>10,806</u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the Educational Service Center

The Tri-County Educational Service Center (the “ESC”) 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 ESC is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operated 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 ESC’s instructional support services.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the ESC consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, and related special education, supervisory and administrative and fiscal activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization’s governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization’s resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes. The ESC does not have any component units.

The ESC is associated with the Tri-County Computer Service Association (TCCSA), a jointly governed organization; the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers’ Compensation Group Rating Program (GRP), the Schools of Ohio Risk Sharing Authority Board (SORSA) and Ohio Mid-Eastern Regional Education Service Agency (OME-RESA), which are public entity risk pools. These organizations are presented in Notes 13 and 14.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and its internal service funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the ESC’s accounting policies.

Tri-County Educational Service Center
Wayne County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

A. Basis of Presentation

The ESC'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 ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" receipts and disbursements.

The statement of net assets presents the financial condition of the governmental activities of the ESC at fiscal year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the ESC's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. General receipts are receipts which are not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the ESC.

Fund Financial Statements During the year, the ESC segregates transactions related to certain ESC 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 ESC at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds The ESC classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and the other nonexchange transactions as governmental funds. The following is the ESC's major governmental fund:

General fund The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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The other governmental funds of the ESC account for grants and other resources to which the ESC is bound to observe constraints imposed upon the use of the resources.

Proprietary Funds The ESC classifies funds financed primarily from user charges for goods or services as proprietary. The ESC's only proprietary fund is an internal service fund.

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 ESC on a cost reimbursement basis. The ESC's only internal service fund accounts for a self-insurance program for employee medical benefits.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. Agency funds are custodial in nature. The ESC's only fiduciary fund is an agency fund which accounts for Medicaid administrative claims.

C. Basis of Accounting

The ESC's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the ESC are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

Although not legally required, the ESC adopts its budget for all 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 ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Governing Board approve appropriations and estimated resources. The ESC's Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds.

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E. Cash and Cash Equivalents

To improve cash management, all cash received by the ESC 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 ESC records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The ESC participates in the OME-RESA insurance consortium for self-insurance. These monies are held separate from the ESC's central bank account and are reflected in the financial statement as "cash and cash equivalents with fiscal agent."

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio ("STAROhio").

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$998, which includes \$380 assigned from other ESC funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the ESC are presented on the financial statements as cash equivalents.

F. Inventory and Prepaid Items

The ESC reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The ESC reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the ESC's cash basis of accounting.

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J. Employer Contributions to Cost-Sharing Plans

The ESC recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, the ESC classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Board of Education. Those committed amounts cannot be used for any other purpose unless the ESC Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2012, none of the ESC's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities and grants.

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

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

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Notes to the Basic Financial Statements
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Note 3 – Change in Basis of Accounting and Restatement of Fund Balances and Net Assets

Change in Basis of Accounting

For 2012, the ESC ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2.

Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the ESC as they were previously reported. The effects on net assets of the governmental activities are also presented.

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund Balance Previously Reported at June 30, 2011	\$ 1,578,806	\$ 27,114	\$ 1,605,920
Eliminations:			
Asset Accruals	(644,987)	(39,787)	(684,774)
Prepayments	(22,359)	(1,932)	(24,291)
Interfunds	(85,300)	85,300	0
Liability Accruals	1,524,713	143,247	1,667,960
Restated Fund Balance at July 1, 2011	<u>\$ 2,350,873</u>	<u>\$ 213,942</u>	<u>\$ 2,564,815</u>

The change in basis of accounting had the following effect on net assets previously reported:

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
Net Assets Previously Reported at June 30, 2011	\$ 3,057,554	\$ 1,407,615
Eliminations:		
Asset Accruals	(684,774)	0
Prepayments	(24,291)	0
Capital Assets	(476,295)	0
Liability Accruals	1,677,961	68,368
Long-term Liabilities	490,643	0
Restated Net Assets at July 1, 2011	<u>\$ 4,040,798</u>	<u>\$ 1,475,983</u>

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Note 4 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the ESC to prepare its annual financial report in accordance with generally accepted accounting principles. However, the ESC prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The ESC can be fined and various other administrative remedies may be taken against the ESC.

Note 5 - Deposits and Investments

State statute classifies monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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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 Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any on 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 ESC, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the ESC's name. During 2012, the ESC and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the ESC's deposits was \$800,556. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2012, \$0 of the ESC's bank balance of \$1,000,626 was exposed to custodial risk as discussed above, while the ESC's entire bank balance was covered by Federal Deposit Insurance Corporation.

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Investments

As of June 30, 2012, the ESC had the following investment and maturity:

Investment Type	Fair Value	Investment Maturity 6 Months or Less
STAROhio	\$ 2,346,750	\$ 2,346,750

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 ESC's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a rating of AAAM by Standard and Poor's. The ESC has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the ESC at June 30, 2012:

Investment Type	Fair Value	Percent of Total
STAROhio	\$ 2,346,750	100.00%

Funds Held by Fiscal Agent

The ESC participates in the Ohio Mid-Eastern Regional Education Service Agency Self-Insurance Plan for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was \$1,159,845. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

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Note 6 – State Funding

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM – the total number of pupils under the ESC’s supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State’s foundation program.

Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation.

The local school districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

Note 7 – Operating Lease

The ESC entered into a lease agreement on behalf of Ashland Community Academy (ACCA) on July 14, 2008 with Ashland Station, Inc. to lease classroom space located at the Ashland Square Shopping Center. The amended lease began on January 1, 2011 and ends on September 30, 2012, at a rate of \$3,000 per month. The ESC charges back ACCA for the lease payments incurred on its behalf.

Note 8 - Risk Management

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance coverage.

General liability coverage is \$7,000,000 annual aggregate/\$5,000,000 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. There has been no significant reduction in coverage from the prior year.

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For fiscal year 2012, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESCs is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school ESCs within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school ESCs that can meet the GRPs selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 9 - Pension Plans

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's contributions for pension obligations to SERS for the years ended June 30, 2012, 2011 and 2010 were \$324,004, \$298,966 and \$316,056, respectively; 100 percent has been contributed for the fiscal years 2012, 2011 and 2010.

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B. State Teachers Retirement System

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$865,192, \$788,707 and \$794,240, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$17,241 made by the ESC and \$12,315 made by the plan members.

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Note 10 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The ESC participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$49,593, \$72,861 and \$49,665, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,134, \$19,239 and \$18,795, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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B. State Teachers Retirement System

Plan Description - The ESC contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State Statute. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$66,553, \$60,670 and \$61,095, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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Note 11 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	General	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted for:			
Local Grants	\$ 0	\$ 28,048	\$ 28,048
State Grants	0	6,131	6,131
Federal Grants	0	183,163	183,163
Total Restricted	<u>0</u>	<u>217,342</u>	<u>217,342</u>
Committed for:			
Retirement	50,000	0	50,000
Assigned for:			
Student Instruction	1,783	0	1,783
Student and Staff Support	168,284	0	168,284
District Escrow Accounts	395,652	0	395,652
Preschool Activities	688,353	0	688,353
Other Purposes	302,746	0	302,746
Total Assigned	<u>1,556,818</u>	<u>0</u>	<u>1,556,818</u>
Unassigned	<u>1,312,340</u>	<u>0</u>	<u>1,312,340</u>
<i>Total Fund Balance</i>	<u>\$ 2,919,158</u>	<u>\$ 217,342</u>	<u>\$ 3,136,500</u>

Note 12 – Interfund Advances

The purpose of the interfund advances from other governmental funds to the general fund is to repay advances from the prior year. At June 30, 2012, the general fund had unpaid interfund cash advances in the amounts of \$10,075 and \$94,975 to the race to the top fund and the miscellaneous federal grants funds, respectively. All interfund advances are expected to be repaid within one year.

Tri-County Educational Service Center
Wayne County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 13 - Jointly Governed Organization

Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 23 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each country from which participating districts are located. Financial information can be obtained by contacting the Treasurer of the Tri-County Education Service Center, located in Wooster, Ohio which serves as fiscal agent.

Note 14 – Public Entity Risk Pools

Workers' Compensation Group Rating Program The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority Board The ESC also partipitates 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 ESC's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan (OME-RESA) – The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 15 - Contingencies

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are 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 ESC at June 30, 2012.

B. Litigation

The ESC is not party to any claims or lawsuits that would have a material effect on the basic financial statements.

September 7, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center (the ESC) as of and for the year ended June 30 2012, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated September 7, 2012, which emphasized the ESC changed their reporting format to the cash basis which is an other comprehensive basis of accounting not in accordance with generally accepted accounting principles. 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 Control over Financial Reporting

Management of the ESC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the ESC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ESC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County 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 grant agreements, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings* as item 2012-001.

We noted certain matters that we reported to management of Tri-County Educational Service Center in a separate letter dated September 7, 2012.

The ESC's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the ESC's response and, accordingly, we express no opinion on it.

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

Hea & Associates, Inc.

September 7, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Tri-County Educational Service Center (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The ESC's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC'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 federal program occurred. An audit includes examining, on a test basis, evidence about the ESC'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 ESC's compliance with those requirements.

In our opinion, the ESC complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the ESC 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 ESC'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ESC's internal control over compliance.

Tri-County Educational Service Center
Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect
On Each Major Program and Internal Control Over
Compliance In Accordance With OMB Circular A-133
Page 2 of 2

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Hea & Associates, Inc.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
U. S. Department of Education				
<i>(Passed through the Ohio Department of Education)</i>				
<i>Special Education Cluster</i>				
Preschool Grant	84.173	2011	\$ 4,651	\$ 8,398
Preschool Grant	84.173	2012	160,017	143,920
ARRA-Preschool Grant	84.392	2010	0	3,258
Parent-Mentor Program	84.027	2011	0	1,296
Parent-Mentor Program	84.027	2012	23,824	23,104
Total Special Education Cluster			<u>188,492</u>	<u>179,976</u>
<i>Title III</i>				
Title III	84.365	2011	0	4,805
Title III	84.365	2012	71,567	71,374
Total Title III			<u>71,567</u>	<u>76,179</u>
<i>Safe and Drug Free Schools Grant</i>				
Safe and Drug Free Schools Dissemination of Information Grant	84.186	2012	10,000	10,000
Safe and Drug Free Schools Sustainability Plus Grant	84.186	2012	14,824	4,897
Total Safe and Drug Free Schools Grant			<u>24,824</u>	<u>14,897</u>
<i>21st Century Grant</i>				
21st Century Learning (Ashland and Wooster)	84.287	2011	0	6,785
21st Century Learning (ACCA and Parkview)	84.287	2011	0	14,637
21st Century Learning (Opportunity School)	84.287	2011	0	23,406
21st Century Learning (Ashland and Wooster)	84.287	2012	97,933	96,054
21st Century Learning (ACCA and Parkview)	84.287	2012	188,932	176,507
21st Century Learning (Opportunity School)	84.287	2012	96,835	67,166
21st Century Learning (Ashland and West Holmes MS)	84.287	2011	0	37,092
21st Century Learning (Ashland and West Holmes MS)	84.287	2012	180,052	165,295
Total 21st Century Learning			<u>563,752</u>	<u>586,942</u>
ARRA-Race to the Top	84.395	2012	20,743	27,577
<i>(Passed through the Ashland County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2011/2012	46,640	47,898
Total Special Education for Infants and Families Cluster			<u>46,640</u>	<u>47,898</u>
<i>(Passed through the Wayne County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2011/2012	132,732	88,675
ARRA - IDEA Part C - Help Me Grow Program	84.393A	2011/2012	28,632	0
Total Special Education for Infants and Families Cluster			<u>161,364</u>	<u>88,675</u>
<i>Memo subtotal - Special Ed. for Infants & Families (non-ARRA)</i>				
	84.181	2011/2012	179,372	136,573
<i>Memo subtotal - ARRA Special Ed. for Infants & Families</i>				
	84.393A	2011/2012	28,632	0
<i>Received directly from the U.S. Department of Education</i>				
Teaching American History Grant	84.215	2011	257,085	257,085
Total U.S. Department of Education			<u>1,334,467</u>	<u>1,279,229</u>
U.S. Department of Labor				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act Cluster</i>				
WIA Youth Transitions Program	17.259	2011	39,652	9,251
WIA Youth Transitions Program	17.259	2012	160,858	173,948
Total WIA Cluster			<u>200,510</u>	<u>183,199</u>
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act Cluster</i>				
WIA Youth Transitions Program	17.259	2011	35,183	0
WIA Youth Transitions Program	17.259	2012	113,713	129,814
Total WIA Cluster			<u>148,896</u>	<u>129,814</u>
Total U.S. Department of Labor			<u>349,406</u>	<u>313,013</u>
U.S. Department of Health & Human Services				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
TANF Adult Literacy Program	93.558	2011/2012	16,134	0
TANF Transitions Summer Program	93.558	2011/2012	0	578
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
TANF Transitions Program	93.558	2011/2012	8,662	0
TANF Transitions Summer Program	93.558	2011/2012	0	997
Total U.S. Department of Health & Human Services			<u>24,796</u>	<u>1,575</u>
Total Federal Assistance			<u>\$ 1,708,669</u>	<u>\$ 1,593,817</u>

The accompanying notes are an integral part of this schedule

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2012

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1)(vii)	Major Programs (list):	21st Century Learning #84.287
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

SCHEDULE OF FINDINGS (Continued)
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2012

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

Material Non-Compliance

Finding Number: 2012-001

Criteria: Ohio Rev. Code Section 117.38 requires the ESC to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

Condition: The ESC chose to prepare its financial statements and notes on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP.

Cause: The Tri-County Educational Service Center Board of Education elected to discontinue preparing its financial statements in accordance with GAAP.

Potential Effect: The financial statements and notes omit assets, liabilities, fund equities, and disclosures that are material, however, cannot be determined at this time.

Recommendation: It is recommended that the ESC prepare its annual financial report in accordance with GAAP to comply with Ohio Admin. Code Section 117-2-03(B).

Management's Response: The Tri-County Educational Service Center Board of Education recognizes the value in preparing accurate and timely financial statements to reflect the ESC's operations as of fiscal year end. Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash-basis of accounting will accurately reflect the ESC's financial position and allow for those resources previously spent on GAAP to be allocated to education purposes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None noted



Dave Yost • Auditor of State

TRI-COUNTY EDUCATIONAL SERVICE CENTER

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 31, 2012