



**Auditor of State  
Betty Montgomery**



**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended June 30, 2006.....	5
Notes to the Financial Statement.....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings.....	14

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**Auditor of State  
Betty Montgomery**

Tri-Rivers Educational Computer Association  
Marion County  
2222 Marion Mt. Gilead Road  
Marion, Ohio 43302

To the Board of Directors:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statement due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Association to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statement in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statement presents are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statement you prepared using the cash basis and financial statement format the AOS permits.

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

**Betty Montgomery**  
Auditor of State

October 27, 2006

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Tri-Rivers Educational Computer Association  
Marion County  
2222 Marion Mt. Gilead Road  
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying financial statement of the Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2006. This financial statement is the responsibility of the Association's management. Our responsibility is to express an opinion on this financial statement 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 statement. 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Association has prepared its financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Association to reformat its financial statement presentation and make other changes effective for the year ended June 30, 2006. Instead of the combined funds the accompanying financial statement presents, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately. While the Association does not follow GAAP, auditing standards generally accepted in the United States of America requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Association has elected not to reformat its statements. Since this Association does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the year ended June 30, 2006 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Association as of June 30, 2006, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balances of the Association, as of June 30, 2006, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Association to include Management's Discussion and Analysis for the year ended June 30, 2006. The Association has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the Association'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.



**Betty Montgomery**  
Auditor of State

October 27, 2006

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Fees	\$13,887,690	\$651,211	\$0	\$14,538,901
Intergovernmental	524,938	302,389	13,630	840,957
Interest	20,221	0	0	20,221
Miscellaneous	4,637	345	0	4,982
	<u>14,437,486</u>	<u>953,945</u>	<u>13,630</u>	<u>15,405,061</u>
<b>Total Cash Receipts</b>				
	<u>14,437,486</u>	<u>953,945</u>	<u>13,630</u>	<u>15,405,061</u>
<b>Cash Disbursements:</b>				
Salaries	6,511,620	310,117	0	6,821,737
Employee Benefits	2,485,419	113,801	0	2,599,220
Purchased Services	3,242,903	180,172	13,630	3,436,705
Supplies and Materials	1,162,173	11,713	0	1,173,886
Debt Service	841,378	0	0	841,378
Capital Outlay	203,514	52,704	0	256,218
Miscellaneous	59,144	477	0	59,621
	<u>14,506,151</u>	<u>668,984</u>	<u>13,630</u>	<u>15,188,765</u>
<b>Total Cash Disbursements</b>				
	<u>14,506,151</u>	<u>668,984</u>	<u>13,630</u>	<u>15,188,765</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(68,665)	284,961	0	216,296
Fund Cash Balances, July 1, 2005	1,968,155	180,808	13,630	2,162,593
	<u>1,968,155</u>	<u>180,808</u>	<u>13,630</u>	<u>2,162,593</u>
<b>Fund Cash Balances, June 30, 2006</b>	<u><b>\$1,899,490</b></u>	<u><b>\$465,769</b></u>	<u><b>\$13,630</b></u>	<u><b>\$2,378,889</b></u>

*The notes to the financial statement are an integral part of this statement.*

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**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Tri-Rivers Educational Computer Association, (the Association) is a Regional Council of Governments pursuant to Chapter 167 of the Ohio Rev. Code. The Association operates under a Board of Directors consisting of nine members, one elected annually from each of Marion, Morrow, Knox, Delaware, Crawford, Union and Wyandot Counties; one representative from the city school districts; and the Superintendent of the Tri-Rivers Joint Vocational School District.

The Association provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. The association serves forty-seven schools in Marion, Morrow, Knox, Delaware, Wyandot, Muskingum, Clark, Cuyahoga, Franklin, Hamilton, Lucas, Union, Mahoning, Summit, Trumbull, and Crawford Counties.

Component units are legally separate organizations for which the Association is financially accountable. The Association is financially accountable for an organization if the Association appoints a voting majority of the organization's governing board and (1) the Association is able to significantly influence the programs or services performed or provided by the organization; or (2) the Association is legally entitled to or can otherwise access the organization's resources; the Association is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Association is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Association in that the Association approves the budget or issues debt. The TRECA Digital Academy (the Academy) is a component unit of the Association as a result of the Association's governing board appointing the Academy's Board of Directors, and the Association is able to impose its will on the Academy. A separately issued report for the Academy will be made available upon request.

**B. Basis of Accounting**

This financial statement follows the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. During fiscal year 2006, the Association had no investments.

**D. Budgetary**

The Association is not subject to budgetary laws prescribed by the Ohio Revised Code.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2006  
(Continued)**

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

**E. Fund Accounting**

The Association uses fund accounting to segregate cash that is restricted as to use. The Association classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Association had the following significant Special Revenue Fund:

Title One Fund - This fund receives money for the purpose of providing Title I services to the TRECA Digital Academy.

Special Education Fund – This fund receives money for the purpose of providing special education services to the TRECA Digital Academy.

**3. Capital Projects Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects. The Association had the following Capital Projects Fund:

One Net Fund – This fund receives money for the purpose of providing technology equipment and the related wiring.

**F. Property, Plant, and Equipment**

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statement.

**G. Unpaid Vacation and Sick Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Association.

**H. Fees**

The Association charges its member school districts fees for technical support services, research and development, ADM, connectivity, and resale of computer equipment. The Association also contracts with various digital academies and charges fees for teaching services and special education.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2006  
(Continued)**

**2. RETIREMENT SYSTEM**

The Association's employees belong to the School Employees Retirement System (SERS) of Ohio or the State Teachers Retirement System (STRS) of Ohio. SERS and STRS are cost-sharing, multiple-employer defined benefit plans. The plans provide retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006, members of SERS and STRS contributed 10% of their gross salaries. The Association contributed an amount equal to 14% of participant's gross salaries. The Association has paid all contributions required through June 30, 2006.

**3. EQUITY IN POOLED CASH**

The Association maintains a cash pool used by all funds. The Association has elected to follow the Ohio Revised Code guidelines that prescribe allowable deposits and investments. The carrying amount of cash at June 30, 2006, was \$2,378,889.

**Deposits:** Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**4. RISK MANAGEMENT**

The Association has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

The Association also provides health insurance and dental and vision coverage to full-time employees through a traditional insurance plan.

**5. CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**6. RELATED PARTY TRANSACTIONS**

The TRECA Digital Academy (the Academy) is a component unit of the Association. On February 24, 2004, the Association and the Academy entered into a Comprehensive Services Agreement, effective until June 30, 2006. Pursuant to this agreement, the parties established, in part, the following terms:

- The Association shall provide the Academy with instructional, supervisory/administrative, fiscal, and technical services sufficient to substantially implement, in cooperation with the Academy, the Academy's obligations pursuant to the Community School Contract (but not including those functions, such as governance, which the Academy is exclusively capable of performing).

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
JUNE 30, 2006  
(Continued)**

**6. RELATED PARTY TRANSACTIONS (Continued)**

- All personnel providing services in fulfillment of the Association's responsibilities shall be employees or contractors of the Association and the Association shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees.
- The technical services provided by the Association to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the Community School Contract as required. All equipment shall remain the property of the Association, including but not limited to computer hardware and software equipment.
- In exchange for the services and support (including equipment) provided by the Association, the Academy shall pay to the Association the following fees:
  - Annual Fee – Beginning with the 2004-2005 school year, the Academy shall at the commencement of each school year (or at other times as agreed by the parties), pay to the Association for curriculum and program development, teacher training, and marketing services associated with the Academy, an annual fee in an amount agreed by the parties.
  - Ongoing Fees – On an ongoing basis, the Academy shall pay to the Association 99% of the base formula funds, and 100% of the additional funds (including but not limited to funds for special education and related services), received by the Academy from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code. These percentages may be adjusted at any time by agreement of the parties.
  - Other Payments – If and as agreed by the parties, the Academy may additionally pay to the Association funds received by the Academy from grants or other sources for services provided by the Association that are consistent with the purposes of such funds.

Effective July 1, 2005, the Association amended the 2004 Comprehensive Services Agreement with the TRECA Digital Academy. The base formula funds paid by the TRECA Digital Academy to the Association were increased from 99% to 100%.

During fiscal year 2006, the Academy paid to the Association \$6,850,512 of base formula funds and \$651,211 of additional funds.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Tri-Rivers Educational Computer Association  
Marion County  
2222 Marion Mt. Gilead Road  
Marion, Ohio 43302

To the Board of Directors:

We have audited the financial statement of Tri-Rivers Educational Computer Association, Marion County, Ohio, (the Association) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006, wherein we noted the Association followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statement and not to opine on the internal control over financial reporting. Our consideration of the 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 of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statement we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Association's management dated October 27, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the Association's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompany schedule of findings as item 2006-001.

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We intend this report solely for the information and use of the audit committee, management, and the Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

October 27, 2006

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**JUNE 30, 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2006-001</b>
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**Finding for Recovery – Repaid Under Audit  
Employment Contract**

The employment contract between Andy D. Kazee, employee, and the Association, employer, states, in part, that in consideration of and for such services, the Association agrees to pay to Andy Kazee the amount of \$55,860.96 set by the Association’s Executive Director and the Association’s Board of Directors, payable in equal biweekly installments, from which the Association shall deduct all deductions required by law or authorized by this employee, including employee contributions to the School Employees Retirement System or State Teachers Retirement System. The annual rate may be adjusted by a written, mutual agreement during the term of this contract. Employment under this contract is subject to all policies and procedures now in place or as hereinafter adopted or amended by the Association. These policies are subject to change from time to time in the sole discretion of the Association. In July 2005, the Board sent a letter to Andy Kazee notifying him that his salary for the 2005-2006 school year would be \$59,119.05.

During fiscal year 2006, the Executive Director authorized a pay increase for Andy Kazee, which led to the employee being paid \$5,950.31 more than the above stated salary amount. The Board of Directors did not authorize this amount nor did the parties adjust the rate per a written, mutual agreement of the parties. The pay increase was negotiated between the Executive Director and Andy Kazee to reimburse insurance costs associated with Andy Kazee not participating in the Association’s insurance plan.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended would have been issued against Andy Kazee, employee, and Scott Armstrong, Treasurer, jointly and severally, in the amount of \$5,950.31 and in favor of the general fund.

On November 28, 2006, the Association’s Board of Directors retroactively approved the \$5,950.31 pay increase.

**Official’s Response**

We did not receive a response from Officials to this finding.

**TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION  
MARION COUNTY**

**JUNE 30, 2006  
SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Monthly Bank Reconciliations	Yes	Fully corrected.
2005-002	Board Monitoring	Yes	Fully corrected.



**Auditor of State  
Betty Montgomery**

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**TRI-RIVER EDUCATIONAL COMPUTER ASSOCIATION**

**MARION 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 21, 2006**