

**TUSCARAWAS-CARROLL-HARRISON  
EDUCATIONAL SERVICE CENTER**

**TUSCARAWAS COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)  
*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005***

**MS. JULIE LYNCH, TREASURER**





**Auditor of State  
Betty Montgomery**

Governing Board  
Tuscarawas Carroll Harrison Educational Service Center  
834 East High Avenue  
New Philadelphia, Ohio 44663

We have reviewed the *Independent Auditor's Report* of the Tuscarawas Carroll Harrison Educational Service Center, Tuscarawas County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

February 9, 2006

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**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER**  
**TUSCARAWAS COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund .....	19
Statement of Fiduciary Net Assets - Fiduciary Funds .....	20
Notes to the Basic Financial Statements.....	21 - 42
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards .....	43
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	44 - 45
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	46 - 47
Schedule of Findings <i>OMB Circular A-133 § .505</i> .....	48 - 49

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

Tuscarawas-Carroll-Harrison Educational Service Center  
Governing Board  
834 E. High Ave.  
New Philadelphia, OH 44663

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio (the "ESC") as of and for the fiscal year ended June 30, 2005, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service ESC, Tuscarawas County, Ohio, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the ESC implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2005, on our consideration of the ESC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Tuscarawas-Carroll-Harrison Educational Service Center  
Page Two

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ESC's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the ESC. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 5, 2005

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the Tuscarawas-Carroll-Harrison 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, 2005. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$251,925 which represents an 32.41% increase from 2004.
- General revenues accounted for \$1,471,682 in revenue or 24.42% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,554,754 or 75.58% of total revenues of \$6,026,436.
- The ESC had \$5,774,511 in expenses related to governmental activities; \$4,554,754 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,471,682 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$5,822,548 in revenues and other financing sources and \$5,650,743 in expenditures. During fiscal year 2005, the general fund's fund balance increased \$171,805 from \$239,168 to \$410,973.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the ESC as a financial whole, an 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, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. 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 nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**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 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

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 restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only 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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the ESC's Fiduciary Responsibilities***

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The ESC's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-42 of this report.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**The ESC as a Whole**

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities 2005	Governmental Activities 2004
<b><u>Assets</u></b>		
Current and other assets	\$ 1,152,023	\$ 933,820
Capital assets	<u>1,665,574</u>	<u>1,671,559</u>
Total assets	<u>2,817,597</u>	<u>2,605,379</u>
<b><u>Liabilities</u></b>		
Current liabilities	706,171	649,366
Long-term liabilities	<u>1,082,303</u>	<u>1,178,815</u>
Total liabilities	<u>1,788,474</u>	<u>1,828,181</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	771,701	681,065
Restricted	34,879	45,286
Unrestricted	<u>222,543</u>	<u>50,847</u>
Total net assets	<u>\$ 1,029,123</u>	<u>\$ 777,198</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the ESC's assets exceeded liabilities by \$1,029,123. Of this total, \$222,543 is unrestricted in use.

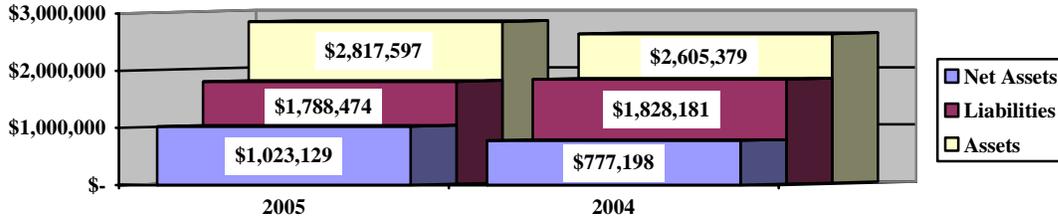
At year-end, capital assets represented 59.11% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$771,701. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$34,879, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$222,543 may be used to meet the ESC's ongoing obligations to the students and creditors.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 4,333,866	\$ 3,730,064
Operating grants and contributions	220,888	242,601
General revenues:		
Grants and entitlements	1,452,549	1,480,335
Investment earnings	<u>19,133</u>	<u>10,468</u>
Total revenues	<u>6,026,436</u>	<u>5,463,468</u>

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 306,309	\$ 272,943
Special	707,587	807,349
Other	-	3,600
Support services:		
Pupil	1,938,311	1,751,407
Instructional staff	1,726,333	1,520,748
Board of education	18,837	26,222
Administration	336,499	407,927
Fiscal	178,303	172,055
Business	238,776	182,482
Operations and maintenance	92,449	86,262
Pupil transportation	7,764	-
Central	163,526	140,495
Operations of non-instructional services	-	17,104
Interest and fiscal charges	<u>59,817</u>	<u>53,447</u>
Total expenses	<u>5,774,511</u>	<u>5,442,041</u>
Change in net assets	251,925	21,427
Net assets at beginning of year	<u>777,198</u>	<u>755,771</u>
Net assets at end of year	<u>\$ 1,029,123</u>	<u>\$ 777,198</u>

**Governmental Activities**

Net assets of the ESC's governmental activities increased \$251,925. Total governmental expenses of \$5,774,511 were offset by program revenues of \$4,554,754 and general revenues of \$1,471,682. Program revenues supported 78.88% of the total governmental expenses.

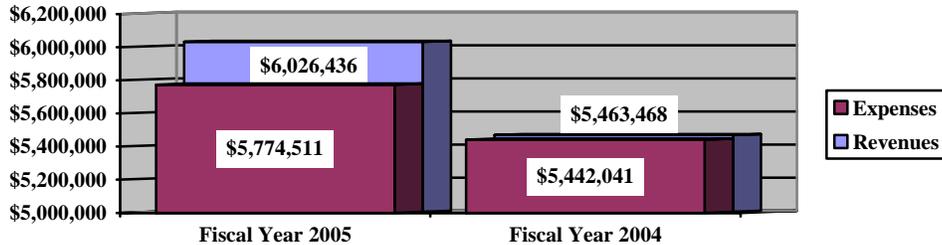
The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 71.91% of total governmental revenue.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

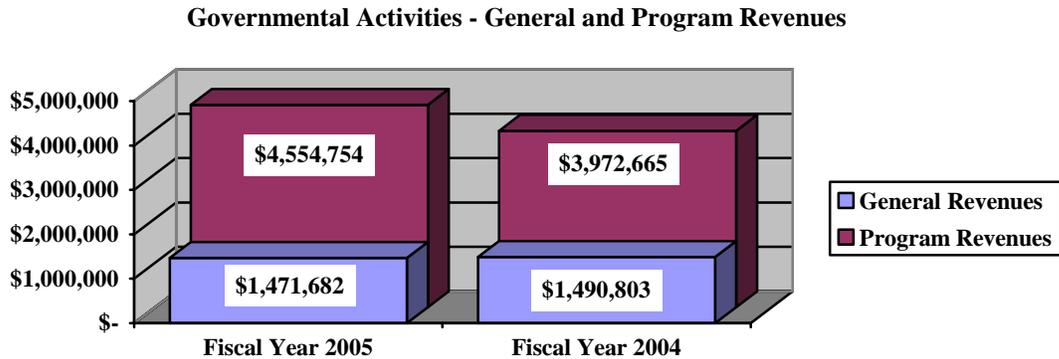
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 306,309	\$ 237,419	\$ 272,943	\$ 201,599
Special	707,587	(5,049)	807,349	52,275
Other	-	-	3,600	-
Support services:				
Pupil	1,938,311	99,972	1,751,407	229,316
Instructional staff	1,726,333	80,921	1,520,748	227,896
Board of education	18,837	18,837	26,222	26,222
Administration	336,499	59,239	407,927	100,975
Fiscal	178,303	176,267	172,055	171,407
Business	238,776	238,776	182,482	182,482
Operations and maintenance	92,449	92,449	86,262	86,262
Pupil transportation	7,764	583	-	-
Central	163,526	160,526	140,495	137,495
Operations of non-instructional services	-	-	17,104	-
Interest and fiscal charges	59,817	59,817	53,447	53,447
<b>Total expenses</b>	<b>\$ 5,774,511</b>	<b>\$ 1,219,757</b>	<b>\$ 5,442,041</b>	<b>\$ 1,469,376</b>

The dependence upon other general revenues for governmental activities is apparent, 17.56% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 21.12%. The ESC's charges for services, as a whole, are by far the primary support for ESC's students.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the ESC's governmental activities revenue for fiscal year 2005 and 2004.



**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$445,852, which is higher than last year's total of \$284,454. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 410,973	\$ 239,168	\$ 171,805	71.83 %
Other Governmental	34,879	45,286	(10,407)	(22.98) %
<b>Total</b>	<b><u>\$ 445,852</u></b>	<b><u>\$ 284,454</u></b>	<b><u>\$ 161,398</u></b>	<b>56.74 %</b>

**General Fund**

The ESC's general fund balance increased by \$171,805 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues being more than increased expenditures. Revenues exceed expenditures for fiscal year 2005 by \$154,805. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Tuition	\$ 33,450	\$ 33,119	\$ 331	1.00 %
Earnings on investments	19,133	10,468	8,665	82.78 %
Charges for services	4,300,416	3,696,945	603,471	16.32 %
Intergovernmental	<u>1,452,549</u>	<u>1,480,335</u>	<u>(27,786)</u>	(1.88) %
 Total	 <u>\$ 5,805,548</u>	 <u>\$ 5,220,867</u>	 <u>\$ 584,681</u>	 11.20 %
<b><u>Expenditures</u></b>				
Instruction	\$ 941,321	\$ 975,063	\$ (33,742)	(3.46) %
Support services	4,518,984	4,074,890	444,094	10.90 %
Capital outlay	17,000	27,183	(10,183)	(37.46) %
Debt service	<u>173,438</u>	<u>229,577</u>	<u>(56,139)</u>	(24.45) %
 Total	 <u>\$ 5,650,743</u>	 <u>\$ 5,306,713</u>	 <u>\$ 344,030</u>	 6.48 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2005, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,497,036 and final budgeted revenues and other financing sources were \$5,703,658. Actual revenues and other financing sources for fiscal 2005 was \$5,703,658 which equals final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,497,036 were increased to \$5,576,938 in the final budget. The actual budget basis expenditures for fiscal year 2005 totaled \$5,576,938, which equals the final budget appropriations.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the ESC had \$1,665,574 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 22,360	\$ 22,360
Land improvements	68,826	73,573
Building and improvements	1,375,053	1,425,803
Furniture and equipment	179,835	127,323
Vehicles	19,500	22,500
<b>Total</b>	<b>\$ 1,665,574</b>	<b>\$ 1,671,559</b>

The overall decrease in capital assets of \$5,985 is due to depreciation expense of \$83,269 exceeding capital outlays of \$77,284 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

***Debt Administration***

At June 30, 2005, the ESC had \$10,335 in loans, \$872,056 in capital lease obligations and \$11,482 in a lease purchase agreement outstanding. Of this total, \$117,966 is due within one year and \$775,907 is due within greater than one year. The following table summarizes the loans and lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2005	2004
Loan payable	\$ 10,335	\$ 19,345
Capital lease obligation	872,056	971,149
Lease purchase agreement	11,482	-
<b>Total</b>	<b>\$ 893,873</b>	<b>\$ 990,494</b>

See Note 11 to the basic financial statements for additional information on the ESC's debt administration.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

**Current Financial Related Activities**

Overall, the Tuscarawas-Carroll-Harrison ESC is financially strong. As the preceding information shows the ESC relies heavily on contracts with local, city, exempted village school districts and other entities within the three county area, state foundation revenue, customer service receipts and grants. Discretionary contracts with districts are expected to decrease in fiscal year 2006 due to the financial difficulties that districts are facing. However, the ESC anticipates an increase in contracts for required special education services and classroom technology support. District contracts, along with the ESC's cash balance will provide the necessary funds to meet its operating expenses in fiscal year 2006.

The future financial stability of the ESC is not without challenges. Some of those challenges that we will be facing are:

- 1.) Continued legislative efforts to realign Ohio's Regional Educational Delivery System and the implementation of that system by the Ohio Department of Education. At this point, the ESC is unable to determine what effect this legislation will have on future state funding and on its financial operations, however it is assumed that this system will directly affect the ESC's and the method used to fund the ESC.
- 2.) Approval of the Ohio Department of Job and Family Services request to discontinue the Community Alternative Funding Systems (CAFS) program effective July 1, 2005 will directly affect the method used to calculate specific special education costs to the districts that we service. Continuation of special education services is at risk as a result of the additional cost the district is forced to assume.
- 3.) One of the last challenges facing the ESC is to continue to provide our school districts with the most innovative and current ideas in classroom technology in a manner that is cost effective to districts that are already faced with financial difficulties.

The Educational Service Center's systems of budgeting and internal controls are well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges of the future.

**Contacting the ESC's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and 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 questions about this report or need additional financial information contact: Ms. Julie A. Lynch, Treasurer, Tuscarawas-Carroll-Harrison Educational Service Center, 834 E. High Street, New Philadelphia, Ohio 44663.

**BASIC  
FINANCIAL STATEMENTS**

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 931,410
Receivables:	
Intergovernmental . . . . .	220,613
Capital assets:	
Land . . . . .	22,360
Depreciable capital assets, net . . . . .	1,643,214
Capital assets, net. . . . .	1,665,574
 Total assets. . . . .	 2,817,597
<b>Liabilities:</b>	
Accrued wages and benefits . . . . .	597,446
Pension obligation payable. . . . .	93,666
Intergovernmental payable . . . . .	15,059
Long-term liabilities:	
Due within one year. . . . .	151,933
Due in more than one year . . . . .	930,370
Total liabilities . . . . .	1,788,474
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	771,701
Restricted for:	
Locally funded programs. . . . .	1,800
State funded programs. . . . .	6,934
Federally funded programs. . . . .	26,145
Unrestricted. . . . .	222,543
Total net assets . . . . .	\$ 1,029,123

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 306,309	\$ -	\$ 68,890	\$ (237,419)
Special . . . . .	707,587	709,243	3,393	5,049
Support services:				
Pupil . . . . .	1,938,311	1,825,299	13,040	(99,972)
Instructional staff . . . . .	1,726,333	1,522,064	123,348	(80,921)
Board of education . . . . .	18,837	-	-	(18,837)
Administration . . . . .	336,499	277,260	-	(59,239)
Fiscal . . . . .	178,303	-	2,036	(176,267)
Business . . . . .	238,776	-	-	(238,776)
Operations and maintenance . . . . .	92,449	-	-	(92,449)
Pupil transportation . . . . .	7,764	-	7,181	(583)
Central . . . . .	163,526	-	3,000	(160,526)
Interest and fiscal charges . . . . .	59,817	-	-	(59,817)
Total governmental activities . . . . .	<u>\$ 5,774,511</u>	<u>\$ 4,333,866</u>	<u>\$ 220,888</u>	<u>(1,219,757)</u>

**General Revenues:**

Grants and entitlements not restricted to specific programs . . . . .	1,452,549
Investment earnings . . . . .	19,133
Total general revenues . . . . .	<u>1,471,682</u>
Change in net assets . . . . .	251,925
Net assets at beginning of year . . . . .	<u>777,198</u>
Net assets at end of year . . . . .	<u>\$ 1,029,123</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 916,665	\$ 14,745	\$ 931,410
Receivables:			
Intergovernmental . . . . .	200,479	20,134	220,613
Total assets . . . . .	\$ 1,117,144	\$ 34,879	\$ 1,152,023
<b>Liabilities:</b>			
Accrued wages and benefits . . . . .	\$ 597,446	\$ -	\$ 597,446
Intergovernmental payable. . . . .	15,059	-	15,059
Pension obligation payable. . . . .	93,666	-	93,666
Total liabilities . . . . .	706,171	-	706,171
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	-	26,145	26,145
Unreserved, undesignated, reported in:			
General fund . . . . .	410,973	-	410,973
Special revenue funds. . . . .	-	8,734	8,734
Total fund balances . . . . .	410,973	34,879	445,852
Total liabilities and fund balances . . . . .	\$ 1,117,144	\$ 34,879	\$ 1,152,023

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$ 445,852
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,665,574
Long-term liabilities, are not due and payable in the current period therefore are not reported in the funds		
Compensated absences	\$ (188,430)	
Capital lease obligation	(872,056)	
Lease-purchase agreement	(11,482)	
Note payable	<u>(10,335)</u>	
Total		<u>(1,082,303)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 1,029,123</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Tuition. . . . .	\$ 33,450	\$ -	\$ 33,450
Earnings on investments. . . . .	19,133	-	19,133
Customer service revenue. . . . .	4,300,416	-	4,300,416
Intergovernmental - State. . . . .	1,307,060	142,926	1,449,986
Intergovernmental - Federal . . . . .	145,489	77,962	223,451
Total revenue . . . . .	<u>5,805,548</u>	<u>220,888</u>	<u>6,026,436</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	232,615	68,890	301,505
Special. . . . .	708,706	2,268	710,974
Support services:			
Pupil. . . . .	1,914,194	8,716	1,922,910
Instructional staff . . . . .	1,596,192	140,121	1,736,313
Board of education . . . . .	18,837	-	18,837
Administration. . . . .	290,763	-	290,763
Fiscal . . . . .	173,523	3,500	177,023
Business . . . . .	269,490	-	269,490
Operations and maintenance. . . . .	87,783	4,800	92,583
Pupil transportation . . . . .	7,764	-	7,764
Central. . . . .	160,438	3,000	163,438
Capital outlay. . . . .	17,000	-	17,000
Debt service:			
Principal retirement . . . . .	113,621	-	113,621
Interest and fiscal charges . . . . .	59,817	-	59,817
Total expenditures . . . . .	<u>5,650,743</u>	<u>231,295</u>	<u>5,882,038</u>
Excess of revenues over (under) expenditures. . . . .	<u>154,805</u>	<u>(10,407)</u>	<u>144,398</u>
<b>Other financing sources:</b>			
Proceeds of lease obligation . . . . .	17,000	-	17,000
Total other financing sources . . . . .	<u>17,000</u>	<u>-</u>	<u>17,000</u>
Net change in fund balances . . . . .	171,805	(10,407)	161,398
<b>Fund balances at</b>			
<b>beginning of year (restated) . . . . .</b>	<u>239,168</u>	<u>45,286</u>	<u>284,454</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 410,973</u>	<u>\$ 34,879</u>	<u>\$ 445,852</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	161,398
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.</p>		
Capital asset additions	\$ 77,284	
Current year depreciation	<u>(83,269)</u>	
Total		(5,985)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		113,621
<p>Lease-purchase transactions are recorded as revenue in the funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.</p>		
		(17,000)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(109)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>251,925</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 32,238	\$ 33,450	\$ 33,450	\$ -
Earnings on investments. . . . .	18,440	19,133	19,133	-
Customer services . . . . .	4,046,430	4,198,526	4,198,526	-
Intergovernmental - state . . . . .	1,259,710	1,307,060	1,307,060	-
Intergovernmental - federal. . . . .	140,218	145,489	145,489	-
<b>Total revenues . . . . .</b>	<u>5,497,036</u>	<u>5,703,658</u>	<u>5,703,658</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	237,924	241,382	241,382	-
Special. . . . .	702,857	713,073	713,073	-
Support services:				
Pupil. . . . .	1,859,410	1,886,437	1,886,437	-
Instructional staff . . . . .	1,543,804	1,566,244	1,566,244	-
Board of education . . . . .	18,637	18,908	18,908	-
Administration. . . . .	285,440	289,589	289,589	-
Fiscal . . . . .	169,996	172,467	172,467	-
Business . . . . .	274,205	278,191	278,191	-
Operations and maintenance. . . . .	85,837	87,085	87,085	-
Pupil transportation . . . . .	7,110	7,213	7,213	-
Central. . . . .	158,038	160,335	160,335	-
Debt service:				
Principal retirement . . . . .	97,673	99,093	99,093	-
Interest and fiscal charges . . . . .	56,105	56,921	56,921	-
<b>Total expenditures. . . . .</b>	<u>5,497,036</u>	<u>5,576,938</u>	<u>5,576,938</u>	<u>-</u>
Net change in fund balance . . . . .	-	126,720	126,720	-
<b>Fund balance at beginning of year . . . . .</b>	<u>784,945</u>	<u>784,945</u>	<u>784,945</u>	<u>-</u>
<b>Fund balance at end of year . . . . .</b>	<u>\$ 784,945</u>	<u>\$ 911,665</u>	<u>\$ 911,665</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

		<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$	557,891
Receivables:		
Intergovernmental . . . . .		106,814
Total assets. . . . .	\$	<u>664,705</u>
<b>Liabilities:</b>		
Accounts payable. . . . .	\$	2,835
Accrued wages and benefits . . . . .		70,347
Pension obligation payable . . . . .		16,072
Intergovernmental payable . . . . .		2,023
Undistributed monies. . . . .		385,941
Due to students . . . . .		187,487
Total liabilities . . . . .	\$	<u>664,705</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER**

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

The ESC operates under an elected five-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 76 non-certificated employees and 98 certificated employees to provide services to approximately 13,028 students in 12 districts throughout Tuscarawas, Carroll, and Harrison counties.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary fund provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes all funds and activities whose primary purpose is providing necessary services to area school districts.

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 organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organizations resources; (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; and (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*JOINTLY GOVERNED ORGANIZATION*

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

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

*INSURANCE PURCHASING POOL*

Ohio School Boards Association Workers' Compensation Group Rating Program

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

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*RISK SHARING POOL*

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

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

Each entity decides which plans offered by the Trust will be extended to its employees. The ESC participates in the health care benefits only. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Benefit Services, Inc., P. O. Box 4138, Akron, Ohio 44321.

The ESC serves as fiscal agent and custodian of the Trust but is not accountable; therefore the operations of the Trust have been excluded from the ESC's financial statements but funds held on behalf of the Trust are included as an agency fund.

**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*

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for 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.

Other governmental funds of the ESC are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*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. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

**C. Basis of Presentation and Measurement Focus**

*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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

*Fund Financial Statements* - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

Agency funds do not report a measurement focus as they do not report operations.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, tuition, grants and entitlements and accounts.

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the ESC prepares a budget of operating expenditures for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions and travel costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the ESC.

Estimated Resources:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represent the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

Appropriations:

The Annual Appropriation Resolution is legally enacted by the Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The Appropriation Resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board. The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statement of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. For the general fund, the appropriations equaled expenditures. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriations. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**F. Cash and Investments**

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

The ESC has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$19,133, which includes \$3,680 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents.

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

**G. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

The ESC had no short-term interfund loans receivable or payable at June 30, 2005.

**I. Compensated Absences**

The ESC reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributed to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for those eligible employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**K. Fund Balance Reserves**

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

**L. Net Assets**

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

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

**M. Estimates**

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

**N. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. The ESC made no interfund transfers during fiscal year 2005.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the ESC has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the ESC, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the ESC as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund Balances, June 30, 2004	\$ 250,036	\$ 45,286	\$ 295,322
GASB Technical Bulletin No. 2004-2	(10,868)	-	(10,868)
Restated Fund Balance, June 30, 2004	\$ 239,168	\$ 45,286	\$ 284,454

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the ESC into three categories.

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

Inactive deposits are public deposits that the Governing Board 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.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Interim deposits are deposits of interim monies. Interim moneys 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.

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

Interim monies to 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;
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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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.

**A. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all ESC deposits was \$770,312. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,036,851 of the ESC's bank balance of \$1,136,851 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC.

**B. Investments**

As of June 30, 2005, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 718,989	\$ 718,989

*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.

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAA money market rating.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*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 of each investment type held by the ESC at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>718,989</u>	<u>100.00%</u>

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 770,312
Investments	<u>718,989</u>
Total	<u>\$ 1,489,301</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 931,410
Agency funds	<u>557,891</u>
Total	<u>\$ 1,489,301</u>

**NOTE 5 - STATE FUNDING**

The ESC is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the ESC receives \$47.02 for each of the 13,028 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the ESC's supervision) is apportioned by the State Board of Education among the local school districts to which the ESC provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2005 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Intergovernmental	\$ 220,613
Total	<u>\$ 220,613</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**NOTE 7 - CAPITAL ASSETS**

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

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,360	\$ -	\$ -	\$ 22,360
Total capital assets, not being depreciated	<u>22,360</u>	<u>-</u>	<u>-</u>	<u>22,360</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	94,933	-	-	94,933
Buildings and improvements	1,614,101	-	-	1,614,101
Furniture and equipment	236,794	77,284	-	314,078
Vehicles	<u>24,000</u>	<u>-</u>	<u>-</u>	<u>24,000</u>
Total capital assets, being depreciated	<u>1,969,828</u>	<u>77,284</u>	<u>-</u>	<u>2,047,112</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(21,360)	(4,747)	-	(26,107)
Buildings and improvements	(188,298)	(50,750)	-	(239,048)
Furniture and equipment	(109,471)	(24,772)	-	(134,243)
Vehicles	<u>(1,500)</u>	<u>(3,000)</u>	<u>-</u>	<u>(4,500)</u>
Total accumulated depreciation	<u>(320,629)</u>	<u>(83,269)</u>	<u>-</u>	<u>(403,898)</u>
Governmental activities capital assets, net	<u>\$ 1,671,559</u>	<u>\$ (5,985)</u>	<u>\$ -</u>	<u>\$ 1,665,574</u>

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 7 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 3,000
Special	1,191
<u>Support Services:</u>	
Pupil	1,548
Instructional staff	14,391
Administration	57,827
Fiscal	1,450
Business	3,774
Central	<u>88</u>
Total depreciation expense	<u>\$ 83,269</u>

**NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE**

On April 11, 2002 the ESC entered into a lease-purchase with Banc One Leasing Corporation for financing the acquisition, renovation, rehabilitation, furnishing, equipping and otherwise improving a building for use as an administration building.

During fiscal year 2005, the ESC made principal payments of \$99,093 and interest payments of \$56,921. The principal and interest payments are recorded as an expenditure in the general fund.

A liability in the amount of the present value of minimum lease payments has been recorded in the statement of net assets. General capital assets consisting of building improvements have been capitalized in the amount of \$1,300,000.

The repayment schedule was restructured during fiscal 2005.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2005.

<u>Fiscal</u>	
<u>Year Ending</u>	<u>Payments</u>
2006	\$ 156,014
2007	156,014
2008	156,013
2009	<u>567,421</u>
Total minimum lease payment	1,035,462
Less: amount representing interest	<u>(163,406)</u>
Present value of minimum lease payments	<u>\$ 872,056</u>

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

In conjunction with the lease-purchase agreement, the ESC entered into a ground-lease agreement whereby the ESC subleases the real property upon which the renovations and building improvements are being made to Banc One Leasing Corporation. The ESC is the lesser and Banc One Leasing Corporation is the lessee under the ground-lease agreement. The sublease commenced on April 11, 2002 and terminates on April 11, 2014, or earlier upon the termination of the lease-purchase agreement by the ESC.

In conjunction with the lease-purchase agreement, the ESC entered into an escrow agreement with Bank One Trust Company, N.A. and Banc One Leasing Corporation whereby Bank One Trust Company, N.A. acts as escrow agent for the funds received under the lease-purchase agreement. Under the escrow agreement, the ESC authorizes and directs Banc One Leasing Corporation to make disbursements to pay the project costs from the amount deposited with the escrow agent. The escrow agreement terminates upon termination of the lease-purchase agreement. All funds in the escrow account were disbursed in fiscal 2004. There were no funds remaining in the account at June 30, 2005.

**NOTE 9 - LEASE-PURCHASE AGREEMENT**

During 2005 the ESC entered into a lease-purchase with Kansas State Bank to finance the acquisition of a digital printer.

During fiscal year 2005, the ESC made principal payments of \$5,518 and interest payments of \$2,058. The principal and interest payments will be recorded as an expenditure in the general fund.

A liability in the amount of the present value of minimum lease payments has been recorded in the statement of net assets. General capital assets consisting of equipment has been capitalized in the amount of \$17,000.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2005.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2006	\$ 4,132
2007	4,133
2008	4,133
2009	<u>689</u>
Total minimum lease payment	13,087
Less: amount representing interest	<u>(1,605)</u>
Present value of minimum lease payments	<u>\$ 11,482</u>

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - COMPENSATED ABSENCES**

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a total of 200 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 45 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

**NOTE 11 - LONG-TERM OBLIGATIONS**

During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 188,321	\$ 32,972	\$ (32,863)	\$ 188,430	\$ 33,967
Note payable	19,345	-	(9,010)	10,335	9,518
Capital lease obligation	971,149		(99,093)	872,056	105,140
Lease-purchase agreement	<u>-</u>	<u>17,000</u>	<u>(5,518)</u>	<u>11,482</u>	<u>3,308</u>
Total long-term obligations, governmental activities	<u>\$ 1,178,815</u>	<u>\$ 49,972</u>	<u>\$ (146,484)</u>	<u>\$ 1,082,303</u>	<u>\$ 151,933</u>

Note payable - On July 3, 2003, the ESC received a note in the amount of \$27,183 from First National Bank of Dennison for the purpose of purchasing three vehicles. The note matures on July 2, 2006, and bears an annual interest rate of 5.490%. Payments of principal and interest relating to this liability are recorded as expenditures in the general fund. The unmatured obligation at year-end is accounted for in the statement of net assets.

The following is a summary of the ESC's future annual debt service requirements to maturity for the note payable:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 9,518	\$ 330	\$ 9,848
2007	<u>817</u>	<u>4</u>	<u>821</u>
Total	<u>\$ 10,335</u>	<u>\$ 334</u>	<u>\$ 10,669</u>

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive and Employee Health Insurance**

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 2005, the ESC contracted with Westfield Insurance Company for commercial property insurance with a \$1,300,000 single occurrence limit and a \$500 deductible limit per year.

Professional liability is provided by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Driver's Education vehicles are covered by Ohio School Plan and hold a \$250 deductible for comprehensive and a \$500 deductible for collision. Bodily Injury/Property Damage liability has a \$1,000,000 per person/\$1,000,000 per accident and \$1,000,000 Property Damage liability per accident with a \$5,000 limit per person liability for medical payment. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

**B. Workers' Compensation**

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**C. Health Care Benefits**

The ESC provides life insurance and accidental death and dismemberment insurance for all full-time employees through the Great American Reserve Insurance Company, administered by CoreSource Insurance Company, in the amount of \$50,000 per employee. The ESC has elected to provide health care benefits to employees and administrators through the Tuscarawas-Conotton Valley Local Schools Benefit Trust Health Consortium which is maintained by the ESC. The employees share the cost of the monthly premium with the board.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$146,110, \$170,548, and \$132,790, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

**B. State Teachers Retirement System**

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions for pension obligations to the STRS plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$462,798, \$424,021, and \$362,634, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$10,914 made by the ESC and \$11,647 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the ESC, this amount equaled \$33,057 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$46,665 during the 2005 fiscal year.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**TUSCARAWAS-CARROLL-HARRISION EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

	<u>General Fund</u>
Budget basis	\$ 126,720
Net adjustment for revenue accruals	101,890
Net adjustment for expenditure accruals	(73,805)
Net adjustment for other sources/uses	<u>17,000</u>
GAAP basis	<u>\$ 171,805</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

**B. Litigation**

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

**C. State School Funding Decision**

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

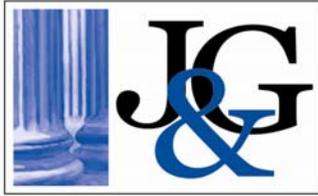
The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The ESC is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

## **SUPPLEMENTAL DATA**

TUSCARAWAS - CARROLL - HARRISON EDUCATIONAL SERVICE CENTER  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
<b>U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>				
<i>Special Education Cluster:</i>				
(B) Special Education Grants to States	84.027	050260-6BAA-2005	\$ 7,500	\$ 7,500
(B) Special Education Grants to States	84.027	050260-6BEC-2005	20,000	13,366
(B) Special Education Grants to States	84.027		-	6,273
(B) Special Education Grants to States	84.027	050260-6BS1-2004-P	244,106	251,109
(B) Special Education Grants to States	84.027	050260-6BS1-2005-P	750,774	742,504
<i>Total Special Education - Grants to States</i>			<u>1,022,380</u>	<u>1,020,752</u>
(B) Special Education-Preschool Grants	84.173	050260-PGS1-2004	-	293
(B) Special Education-Preschool Grants	84.173	050260-PGS1-2005	57,825	51,818
<i>Total Special Education - Preschool Grants</i>			<u>57,825</u>	<u>52,111</u>
<i>Total Special Education Cluster</i>			<u>1,080,205</u>	<u>1,072,863</u>
Safe and Drug Free Schools and Communities - National Program	84.323	050260-6BST-2005	141,613	123,033
Even Start - State Education Agencies	84.213	050260-EVS3-2003	-	7,381
Even Start - State Education Agencies	84.213	050260-EVS3-2005	259,778	263,864
<i>Total Even Start - State Education Agencies</i>			<u>259,778</u>	<u>271,245</u>
Twenty-First Century Community Learning Centers	84.287	050260-T1S1-2005	223,861	216,099
<b>Total U. S. Department of Education</b>			<u>1,705,457</u>	<u>1,683,240</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:</b>				
State Children's Health Insurance Program	93.778	N/A	12,101	12,101
Medical Assistance Program	93.778	N/A	133,388	133,388
<b>Total U. S. Department of Health and Human Services</b>			<u>145,489</u>	<u>145,489</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,850,946</u>	<u>\$ 1,828,729</u>

- (A) This schedule was prepared on the cash basis of accounting.  
(B) Included as part of "Special Education Cluster" in determining major programs.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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***

Tuscarawas-Carroll-Harrison Educational Service Center  
Governing Board  
834 East High Ave.  
New Philadelphia, OH 44663

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Tuscarawas-Carroll-Harrison Educational Service Center (the "ESC"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the ESC's basic financial statements, and have issued our report thereon dated December 5, 2005. As disclosed in Note 3 to the financial statements, the ESC implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. 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

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Governing Board  
Tuscarawas-Carroll-Harrison Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ESC'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to the management of the ESC in a separate letter dated December 5, 2005.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 5, 2005



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Federal Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

Tuscarawas-Carroll-Harrison Educational Service Center  
Governing Board  
834 East High Ave.  
New Philadelphia, OH 44663

Compliance

We have audited the compliance of the Tuscarawas-Carroll-Harrison 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 are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the ESC implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. 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, *Audit 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.

Governing Board  
Tuscarawas-Carroll-Harrison Educational Service Center

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

Internal Control Over Compliance

The 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 the ESC's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Julian & Grube, Inc.  
December 5, 2005

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Program Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Special Education Cluster- Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Grants - CDFA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

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**TUSCARAWAS CARROLL HARRISON EDUCATIONAL SERVICE CENTER  
TUSCARAWAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 21, 2006**