

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

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2011*

DAVID DENBOW, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Tri-County Educational Service Center, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 5, 2012

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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December 29, 2011

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center (the ESC), as of and for the year ended June 30, 2011, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, as of June 30, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.

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 required 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 Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) for the General fund and the Miscellaneous Federal Grants fund provides additional information and the accompanying Schedule of 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 are not a required part of the basic financial statements. 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.

Hea & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Tri-County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2011. 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 fiscal year 2011 are as follows:

- In total, net assets of governmental activities decreased \$250,753 which represents a 7.58% decrease from fiscal year 2010.
- General revenues accounted for \$908,992 in revenue or 6.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,157,574 or 93.54% of total revenues of \$14,066,566.
- The ESC had \$14,317,319 in expenses related to governmental activities; \$13,157,574 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (including unrestricted grants and entitlements) of \$908,992 were not adequate to provide for these programs.
- The ESC had two major governmental funds, the general fund and the miscellaneous federal grants fund. The general fund had \$12,964,504 in revenues and other financing sources and \$12,814,023 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance increased \$150,481 from \$1,428,325 to \$1,578,806.
- The miscellaneous federal grants fund had \$931,688 in revenues and \$892,215 in expenditures. During fiscal year 2011, the miscellaneous federal grants fund's fund balance increased \$39,473 from a deficit fund balance of \$31,709 to a fund balance of \$7,764.

Using the Basic Financial Statements (BFS)

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 and the miscellaneous federal grants fund are the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The statement of net assets and 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.

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 increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the statement of net assets and statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and other 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 funds 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 major governmental funds are the general fund and the miscellaneous federal grants 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 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 statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds

The ESC maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for medical/surgical, vision and dental self-insurance. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. 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 23-43 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund and miscellaneous federal grants fund as supplementary information on pages 44-47 of this report.

The ESC as a Whole

The table below provides a summary of the ESC's net assets at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 4,749,863	\$ 4,848,706
Capital assets, net	<u>476,295</u>	<u>468,340</u>
Total assets	<u>5,226,158</u>	<u>5,317,046</u>
<u>Liabilities</u>		
Current liabilities	1,677,961	1,546,922
Long-term liabilities	<u>490,643</u>	<u>461,817</u>
Total liabilities	<u>2,168,604</u>	<u>2,008,739</u>
<u>Net Assets</u>		
Invested in capital assets	476,295	468,340
Restricted	23,570	166,873
Unrestricted	<u>2,557,689</u>	<u>2,673,094</u>
Total net assets	<u>\$ 3,057,554</u>	<u>\$ 3,308,307</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$3,057,554. Of this total, \$23,570 is restricted in use.

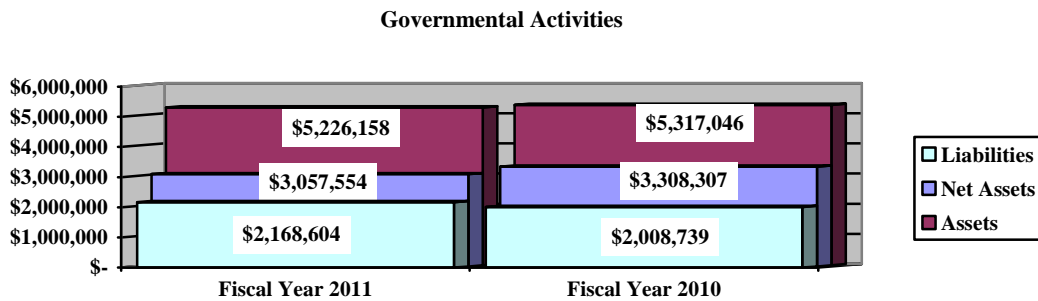
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

At year-end, capital assets represented 9.11% of total assets. Capital assets include land, buildings and improvements and furniture and equipment. Net assets invested in capital assets, net of accumulated depreciation, at June 30, 2011 were \$476,295. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$23,570, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,557,689 may be used to meet the ESC's ongoing obligations to the ESC's students and creditors.

The graph below illustrates the ESC's assets, liabilities, and net assets at June 30, 2011 and June 30, 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 9,536,797	\$ 9,943,409
Operating grants and contributions	3,620,777	2,929,584
General revenues:		
Grants and entitlements	827,807	1,635,227
Investment earnings	36,249	47,976
Other	44,936	19,633
Total revenues	14,066,566	14,575,829

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Change in Net Assets	
	(Continued)	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 467,822	\$ 901,128
Special	2,827,563	1,584,514
Adult/continuing	74,957	60,375
Support services:		
Pupil	4,138,087	2,598,182
Instructional staff	2,043,537	3,312,825
Board of education	43,489	51,385
Administration	1,212,486	500,875
Fiscal	363,354	316,097
Business	162,233	166,290
Operations and maintenance	279,968	207,579
Pupil transportation	203,451	30,879
Central	1,807,929	1,498,791
Operation of non-instructional services	<u>692,443</u>	<u>3,433,115</u>
Total expenses	<u>14,317,319</u>	<u>14,662,035</u>
Change in net assets	(250,753)	(86,206)
Net assets at beginning of year	<u>3,308,307</u>	<u>3,394,513</u>
Net assets at end of year	<u>\$ 3,057,554</u>	<u>\$ 3,308,307</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$250,753. Total governmental expenses of \$14,317,319 were offset by program revenues of \$13,157,574 and general revenues of \$908,992. Program revenues supported 91.90% of the total governmental expenses. Overall expenses of the ESC only decreased \$344,716 or 2.35%, but the classification of various expenses changed in fiscal year 2011 compared to fiscal year 2010 due to teachers being paid from special instruction, speech instructors, psychologists and aides being paid from pupil support services and administrators being paid from administration support services. In prior years, these costs were attributed to the operation of non-instructional services. The ESC altered its expense reporting at the same time it established separate special cost centers within the general fund intended to track preschool operations separately for each of its three preschools. The ESC believes this expense reporting is more reflective of the true operations of the ESC.

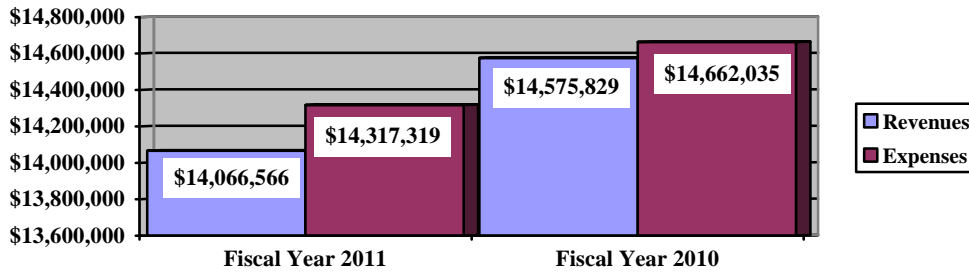
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 67.80% of total governmental revenue. The decrease in grants and entitlements general revenue is due to decreased foundation receipts from the State related to general operations of the ESC. The ESC received additional revenue from the State relating to operating grants and contributions, which helped to offset the decrease in grants and entitlements general revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2011 and 2010.

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 for fiscal years 2011 and 2010. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 467,822	\$ 27,273	\$ 901,128	\$ 179,085
Special	2,827,563	420,438	1,584,514	361,644
Adult/continuing	74,957	5,372	60,375	15,260
Support services:				
Pupil	4,138,087	357,010	2,598,182	620,413
Instructional staff	2,043,537	142,177	3,312,825	751,859
Board of education	43,489	(39,124)	51,385	(16,262)
Administration	1,212,486	159,859	500,875	72,691
Fiscal	363,354	42,348	316,097	61,543
Business	162,233	16,903	166,290	40,945
Operations and maintenance	279,968	36,156	207,579	59,961
Pupil transportation	203,451	15,368	30,879	6,621
Central	1,807,929	(9,917)	1,498,791	385,943
Operation of non-instructional services	692,443	(14,118)	3,433,115	(750,661)
Total	<u>\$ 14,317,319</u>	<u>\$ 1,159,745</u>	<u>\$ 14,662,035</u>	<u>\$ 1,789,042</u>

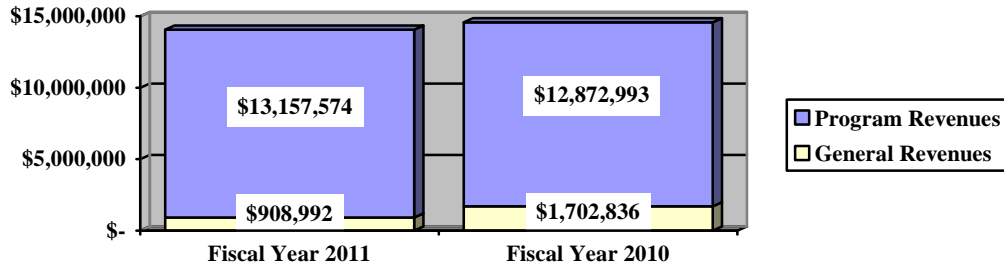
For all governmental activities, program revenue support is 91.90%. The primary support of the ESC is contracted fees for services provided to other districts. Significant variances in the net cost of services is due to various expense classification changes in fiscal year 2011 compared to fiscal year 2010 due to teachers being paid from special instruction, speech instructors, psychologists and aides being paid from pupil support services and administrators being paid from administration support services. In prior years, these costs were attributed to the operation of non-instructional services. The ESC altered its expense reporting at the same time it established separate special cost centers within the general fund intended to track preschool operations separately for each of its three preschools. The ESC believes this expense reporting is more reflective of the true operations of the ESC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the ESC's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,605,920, which is greater than last year's total of \$1,380,800. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010.

	Fund Balance <u>June 30, 2011</u>	Fund Balance (Deficit) <u>June 30, 2010</u>	<u>Increase</u>
General	\$ 1,578,806	\$ 1,428,325	\$ 150,481
Miscellaneous Federal Grants	7,764	(31,709)	39,473
Other Governmental	<u>19,350</u>	<u>(15,816)</u>	<u>35,166</u>
Total	<u>\$ 1,605,920</u>	<u>\$ 1,380,800</u>	<u>\$ 225,120</u>

General Fund

The ESC's general fund balance increased \$150,481. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

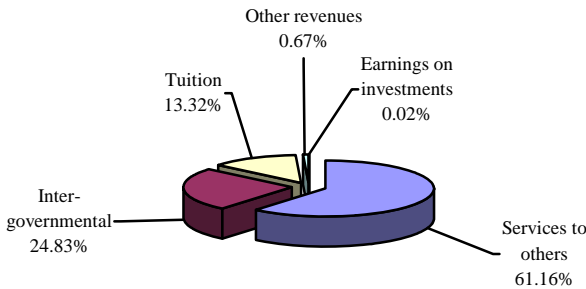
	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Services provided to other entities	\$ 7,920,312	\$ 8,084,323	(2.03) %
Tuition	1,725,843	1,750,062	(1.38) %
Earnings on investments	2,948	37,942	(92.23) %
Intergovernmental	3,215,820	3,204,672	0.35 %
Other revenues	<u>87,176</u>	<u>48,883</u>	78.34 %
Total	<u>\$ 12,952,099</u>	<u>\$ 13,125,882</u>	(1.32) %
<u>Expenditures</u>			
Instruction	\$ 3,071,892	\$ 2,211,077	38.93 %
Support services	9,032,391	7,749,660	16.55 %
Operation of non-instructional	<u>707,843</u>	<u>3,430,293</u>	(79.36) %
Total	<u>\$ 12,812,126</u>	<u>\$ 13,391,030</u>	(4.32) %

Overall revenues of the general fund decreased \$173,783 or 1.32%. Earnings on investments decreased \$34,994 or 92.23% due to the maturity of investments during fiscal year 2011 that were not renewed and therefore no longer produced interest revenue for the ESC. Other revenues increased \$38,293 or 78.34%, primarily due to an increase in contributions and donations. All other revenues remained comparable to the prior year.

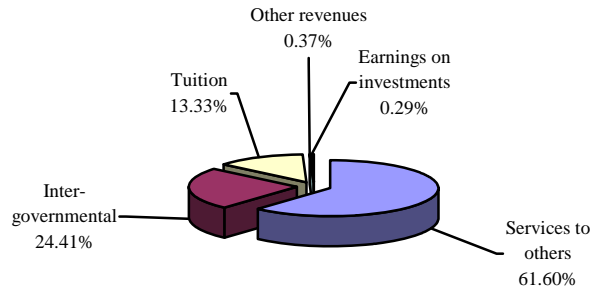
Overall expenditures of the general fund decreased \$578,904 or 4.32%. The differences in expenditure totals by type are attributable to changes in the classification of various expenditures during fiscal year 2011 compared to fiscal year 2010. Beginning in fiscal year 2011, teachers were paid from special instruction, speech instructors, psychologists and aides were paid from pupil support services and administrators were paid from administration support services. In prior years, these costs were attributed to the operation of non-instructional services. The ESC altered its expenditure reporting at the same time it established separate special cost centers within the general fund intended to track preschool operations separately for each of its three preschools. The ESC believes this expenditure reporting is more reflective of the true operations of the ESC.

The charts below indicate the percentage of general fund revenues for fiscal years 2011 and 2010.

Revenues - Fiscal Year 2011



Revenues - Fiscal Year 2010

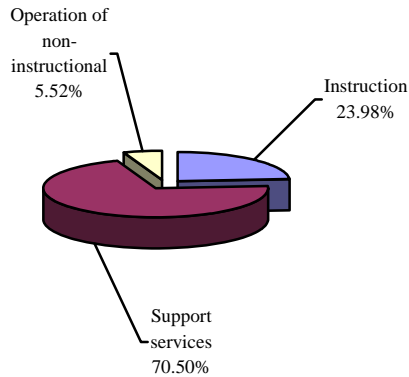


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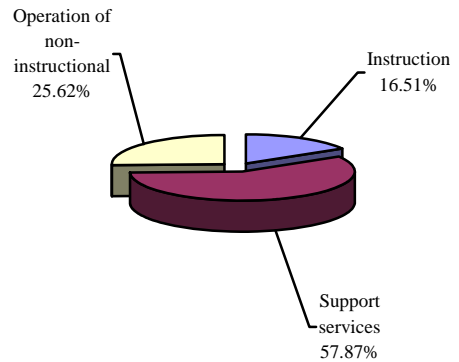
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The charts below indicate the percentage of general fund expenditures for fiscal years 2011 and 2010.

Expenditures - Fiscal Year 2011



Expenditures - Fiscal Year 2010



Miscellaneous Federal Grants Fund

The miscellaneous federal grants fund has \$931,688 in revenues and \$892,215 in expenditures. During fiscal year 2011, the miscellaneous federal grants fund's fund balance increased \$39,473 from a deficit fund balance of \$31,709 to a fund balance of \$7,764.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the ESC has \$476,295 invested in land, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. The following table shows June 30, 2011 balances compared to June 30, 2010:

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 77,981	\$ 77,981
Buildings and improvements	269,400	280,753
Furniture and equipment	<u>128,914</u>	<u>109,606</u>
Total	<u>\$ 476,295</u>	<u>\$ 468,340</u>

See Note 8 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

As of June 30, 2011, the ESC has long-term liabilities for sick leave and vacation liabilities. See Note 9 to the basic financial statements for additional information on the ESC's long-term liabilities.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Current Financial Related Activities

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

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, 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 David Denbow, Treasurer, Tri-County ESC, 741 Winkler Drive, Wooster, Ohio 44691, calling 330-345-6771.

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
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STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,564,815
Cash with fiscal agent	1,475,983
Receivables:	
Accounts	32,609
Intergovernmental	652,165
Prepayments	24,291
Capital assets:	
Land	77,981
Depreciable capital assets, net.	398,314
Total capital assets, net.	476,295
 Total assets.	 5,226,158
Liabilities:	
Accounts payable	212,755
Accrued wages and benefits	1,099,974
Pension obligation payable.	177,230
Intergovernmental payable	86,723
Claims payable.	68,368
Unearned revenue	32,911
Long-term liabilities:	
Due within one year.	261,014
Due in more than one year.	229,629
 Total liabilities	 2,168,604
Net Assets:	
Invested in capital assets.	476,295
Restricted for:	
Locally funded programs	9,336
State funded programs.	6,076
Federally funded programs	8,158
Unrestricted	2,557,689
 Total net assets	 \$ 3,057,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 467,822	\$ 248,392	\$ 192,157	\$ (27,273)
Special	2,827,563	1,811,291	595,834	(420,438)
Adult/continuing.	74,957	55,800	13,785	(5,372)
Support services:				
Pupil.	4,138,087	2,933,521	847,556	(357,010)
Instructional staff	2,043,537	987,100	914,260	(142,177)
Board of education	43,489	74,615	7,998	39,124
Administration.	1,212,486	755,749	296,878	(159,859)
Fiscal.	363,354	230,694	90,312	(42,348)
Business.	162,233	116,540	28,790	(16,903)
Operations and maintenance	279,968	195,513	48,299	(36,156)
Pupil transportation.	203,451	142,908	45,175	(15,368)
Central	1,807,929	1,457,734	360,112	9,917
Operation of non-instructional services	692,443	526,940	179,621	14,118
Total governmental activities	\$ 14,317,319	\$ 9,536,797	\$ 3,620,777	(1,159,745)
General Revenues:				
Grants and entitlements not restricted				
to specific programs				827,807
Investment earnings				36,249
Miscellaneous				44,936
Total general revenues				908,992
Change in net assets				(250,753)
Net assets at beginning of year.				3,308,307
Net assets at end of year				\$ 3,057,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,350,873	\$ 167,221	\$ 46,721	\$ 2,564,815
Receivables:				
Accounts	32,609	-	-	32,609
Intergovernmental.	612,378	28,634	11,153	652,165
Interfund loans	85,300	-	-	85,300
Prepayments.	22,359	1,932	-	24,291
Total assets	<u>\$ 3,103,519</u>	<u>\$ 197,787</u>	<u>\$ 57,874</u>	<u>\$ 3,359,180</u>
Liabilities:				
Accounts payable	\$ 136,455	\$ 68,046	\$ 8,254	\$ 212,755
Accrued wages and benefits.	1,050,238	25,820	23,916	1,099,974
Compensated absences payable	19,045	-	-	19,045
Pension obligation payable	166,151	7,596	3,483	177,230
Intergovernmental payable	80,981	3,261	2,481	86,723
Interfund loans payable.	-	85,300	-	85,300
Deferred revenue	38,932	-	390	39,322
Unearned revenue.	32,911	-	-	32,911
Total liabilities.	<u>1,524,713</u>	<u>190,023</u>	<u>38,524</u>	<u>1,753,260</u>
Fund Balances:				
Nonspendable:				
Prepayments.	22,359	1,932	-	24,291
Restricted:				
Special education	-	-	1,792	1,792
Other purposes.	-	5,832	19,139	24,971
Committed:				
Retirement	50,000	-	-	50,000
Assigned:				
Student instruction	31	-	-	31
Student and staff support.	32,285	-	-	32,285
District escrow accounts	393,777	-	-	393,777
Preschool activities	168,543	-	-	168,543
Other purposes.	269,957	-	-	269,957
Unassigned (deficit)	641,854	-	(1,581)	640,273
Total fund balances	<u>1,578,806</u>	<u>7,764</u>	<u>19,350</u>	<u>1,605,920</u>
Total liabilities and fund balances	<u>\$ 3,103,519</u>	<u>\$ 197,787</u>	<u>\$ 57,874</u>	<u>\$ 3,359,180</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances	\$	1,605,920
<i>Amounts reported for governmental activities on 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.		476,295
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental receivable	\$ 390	
Services provided to other entities receivable	<u>38,932</u>	
Total		39,322
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(471,598)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		<u>1,407,615</u>
Net assets of governmental activities	\$	<u><u>3,057,554</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Services provided to other entities	\$ 7,920,312	\$ -	\$ -	\$ 7,920,312
Tuition	1,725,843	-	-	1,725,843
Earnings on investments	2,948	-	-	2,948
Contributions and donations	42,240	-	-	42,240
Other local revenues	44,936	-	1,540	46,476
Intergovernmental - intermediate	4,000	-	46,000	50,000
Intergovernmental - state	3,211,820	-	92,390	3,304,210
Intergovernmental - federal	-	931,688	334,227	1,265,915
Total revenues	<u>12,952,099</u>	<u>931,688</u>	<u>474,157</u>	<u>14,357,944</u>
Expenditures:				
Current:				
Instruction:				
Regular	333,667	81,334	55,268	470,269
Special	2,663,268	-	100,169	2,763,437
Adult/continuing	74,957	-	-	74,957
Support services:				
Pupil	3,936,869	32,224	87,806	4,056,899
Instructional staff	1,325,978	603,658	141,968	2,071,604
Board of education	43,489	-	-	43,489
Administration	1,015,203	113,739	10,985	1,139,927
Fiscal	309,893	38,755	-	348,648
Business	156,550	-	-	156,550
Operations and maintenance	262,634	-	-	262,634
Pupil transportation	191,970	11,481	-	203,451
Central	1,789,805	-	-	1,789,805
Operation of non-instructional services	707,843	11,024	32,287	751,154
Total expenditures	<u>12,812,126</u>	<u>892,215</u>	<u>428,483</u>	<u>14,132,824</u>
Excess of revenues over expenditures	<u>139,973</u>	<u>39,473</u>	<u>45,674</u>	<u>225,120</u>
Other financing sources (uses):				
Transfers in	12,405	-	1,897	14,302
Transfers (out)	(1,897)	-	(12,405)	(14,302)
Total other financing sources (uses)	<u>10,508</u>	<u>-</u>	<u>(10,508)</u>	<u>-</u>
Net change in fund balances	150,481	39,473	35,166	225,120
Fund balances (deficits) at beginning of year . . .	<u>1,428,325</u>	<u>(31,709)</u>	<u>(15,816)</u>	<u>1,380,800</u>
Fund balances at end of year	<u>\$ 1,578,806</u>	<u>\$ 7,764</u>	<u>\$ 19,350</u>	<u>\$ 1,605,920</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE 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, 2011

Net change in fund balances - total governmental funds \$ 225,120

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.

Capital asset additions	\$	42,048	
Current year depreciation		(34,093)	
Total			7,955

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Services provided to other entities		(144,105)	
Tuition		(7,493)	
Intergovernmental		(173,081)	
Total			(324,679)

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.

(25,725)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(133,424)

Change in net assets of governmental activities \$ (250,753)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 1,475,983
Total assets.	<u>1,475,983</u>
Liabilities:	
Claims payable	<u>68,368</u>
Total liabilities	<u>68,368</u>
Net assets:	
Unrestricted.	<u>1,407,615</u>
Total net assets	<u>\$ 1,407,615</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,627,174
Miscellaneous	12,126
Total operating revenues	<u>1,639,300</u>
 Operating expenses:	
Purchased services.	618,313
Claims	<u>1,187,712</u>
Total operating expenses.	<u>1,806,025</u>
 Operating loss	 <u>(166,725)</u>
 Nonoperating revenues:	
Interest revenue	33,301
Total nonoperating revenues.	<u>33,301</u>
 Change in net assets.	 (133,424)
Net assets at beginning of year	<u>1,541,039</u>
Net assets at end of year.	<u>\$ 1,407,615</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,627,174
Cash received from other sources	12,126
Cash payments for claims	(1,156,439)
Cash payments for goods and services	(618,313)
	(135,452)
Net cash used in operating activities.	
Cash flows from investing activities:	
Interest received	33,301
	33,301
Net cash provided by investing activities.	
Net decrease in cash with fiscal agent	(102,151)
Cash with fiscal agent at beginning of year.	1,578,134
Cash with fiscal agent at end of year	<u>\$ 1,475,983</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (166,725)
Changes in assets and liabilities:	
Increase in claims payable	31,273
	31,273
Net cash used in operating activities	<u>\$ (135,452)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 10,806
Total assets.	<u>\$ 10,806</u>
Liabilities:	
Undistributed monies	\$ 10,806
Total liabilities	<u>\$ 10,806</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Tri-County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne, Medina and Ashland Counties. The Board controls the ESC's instructional support services staffed by 121 non-certified and 154 certified teaching personnel who provide services to 29,477 students.

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) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The FASB codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the 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 the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATION

The Tri-County Computer Service Association (TCCSA) - TCCSA is a jointly governed organization comprised of 23 user entities. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program. Refer to Note 11 for further information on the GRP.

Schools of Ohio Risk Sharing Authority Board

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

Claims Servicing Pool

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

B. Fund Accounting

The ESC uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain ESC functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the ESC are grouped into the categories governmental, proprietary and fiduciary.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

GOVERNMENTAL FUNDS

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

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

Miscellaneous federal grants fund - The miscellaneous federal grants fund is a fund used to account for various monies received through state agencies from the federal government which are not classified elsewhere.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC has one agency fund which accounts for Medicaid administrative claims.

C. Basis of Presentation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

Fund Financial Statements - During the year, the ESC segregates transactions related to certain ESC functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the ESC at this more detailed level. The focus of governmental statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

D. Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

E. 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

F. Budgetary Data

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

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

G. Cash and Cash Equivalents

To improve cash management, all cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through ESC records. Each fund's interest in the pooled bank account is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The ESC is self insured through the OME-RESA claims servicing pool. OME-RESA is fiscal agent for the pool and the portion of the cash balance held by OME-RESA and attributable to the ESC is presented as "cash with fiscal agent" on the financial statements.

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio ("STAR Ohio"). Except for nonparticipating investment contracts, such as repurchase agreements and non-negotiable certificates of deposit, investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2011, the general fund received interest earned in the amount of \$2,948. The general fund interest includes approximately \$281 assigned from other ESC funds.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Investments with an initial maturity of more than three months which are not purchased from the cash management pool are reported as investments.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC's capitalization threshold is \$1,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, 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>	Governmental Activities <u>Estimated Lives</u>
Land improvements	30 years
Building and improvements	20 - 75 years
Furniture and equipment	7 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other government.

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

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the ESC, these revenues are charges for services for self-insurance programs and miscellaneous operating revenue. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

O. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

P. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

Q. 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 ESC and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Public school preschool	\$ 290
Alternative schools	1,291

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash With Fiscal Agent

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2011, was \$1,475,983.

B. Cash on Hand

At fiscal year end, the ESC had \$525 in undeposited cash on hand which is included on the financial statements of the ESC as part of "equity in pooled cash and cash equivalents".

C. Deposits

At June 30, 2011, the carrying amount of all ESC deposits was \$655,153. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, the ESC's entire bank balance of \$724,639 was covered by the FDIC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2011, the ESC had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 1,919,943	\$ 1,919,943
Total	<u>\$ 1,919,943</u>	<u>\$ 1,919,943</u>

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 AAAM money market rating. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to invest in securities authorized by State statute.

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

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,919,943	100.00
Total	<u>\$ 1,919,943</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 655,153
Investments	1,919,943
Cash with fiscal agent	1,475,983
Cash on hand	<u>525</u>
Total	<u>\$ 4,051,604</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,040,798
Agency fund	<u>10,806</u>
Total	<u>\$ 4,051,604</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following individual interfund loan receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Miscellaneous federal grants	<u>\$ 85,300</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental fund from:</u>		
General fund		\$ 1,897
<u>Transfers to general fund from:</u>		
Nonmajor governmental fund		<u>12,405</u>
Total		<u>\$ 14,302</u>

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NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer to the general fund was allowable because it was intended to close out a special cost center within the other grants fund (a nonmajor governmental fund).

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of accounts (charges for individual tuition or other services) and intergovernmental (billings to school districts for user charged services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 32,609
Intergovernmental	<u>652,165</u>
Total	<u><u>\$ 684,774</u></u>

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

NOTE 7 - STATE FUNDING

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance 06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/11</u>
Governmental activities:				
Land	\$ 77,981	\$ -	\$ -	\$ 77,981
Total capital assets, not being depreciated	<u>77,981</u>	<u>-</u>	<u>-</u>	<u>77,981</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	376,101	-	-	376,101
Furniture and equipment	<u>312,725</u>	<u>42,048</u>	<u>(1,247)</u>	<u>353,526</u>
Total capital assets, being depreciated	<u>688,826</u>	<u>42,048</u>	<u>(1,247)</u>	<u>729,627</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(95,348)	(11,353)	-	(106,701)
Furniture and equipment	<u>(203,119)</u>	<u>(22,740)</u>	<u>1,247</u>	<u>(224,612)</u>
Total accumulated depreciation	<u>(298,467)</u>	<u>(34,093)</u>	<u>1,247</u>	<u>(331,313)</u>
Governmental activities capital assets, net	<u>\$ 468,340</u>	<u>\$ 7,955</u>	<u>\$ -</u>	<u>\$ 476,295</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 3,854
<u>Support services:</u>	
Pupil	4,733
Instructional staff	5,394
Administration	224
Fiscal	1,271
Business	556
Operation and maintenance	14,826
Central	660
Operation of non-instructional services	<u>2,575</u>
Total depreciation expense	<u>\$ 34,093</u>

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NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 461,817	\$ 301,548	\$ (272,722)	\$ 490,643	\$ 261,014
Total	<u>\$ 461,817</u>	<u>\$ 301,548</u>	<u>\$ (272,722)</u>	<u>\$ 490,643</u>	<u>\$ 261,014</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the general fund.

NOTE 10 - OPERATING LEASE

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

NOTE 11 - RISK MANAGEMENT

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance.

General liability coverage is \$7,000,000 annual aggregate/\$5,000,000 single occurrence limit and no deductible. Willis Risk Solutions is the actuary and reinsurance broker. Property coverage is provided by the pool and reinsurer Travelers Insurance Company and includes coverage for crime, employee dishonesty and inland marine. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

For fiscal year 2011, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESCs is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school ESCs within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school ESCs that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

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NOTE 11 - RISK MANAGEMENT - (Continued)

The claims liability of \$68,368 reported in the internal service fund at June 30, 2011 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2011	\$ 37,095	\$ 1,187,712	\$ (1,156,439)	\$ 68,368
2010	60,737	1,115,547	(1,139,189)	37,095

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from governing board policies and State laws. Employees earn 10 to 25 days of vacation per year, depending upon length of service and number of days worked per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days. An employee must be employed for a minimum of three years to qualify for these benefits.

B. Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to full-time employees through MetLife; coverage amount is \$38,000 per employee, with the exception of the Superintendent and Treasurer, coverage is \$100,000.

NOTE 13 - CONTINGENCIES

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2011.

B. Litigation

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$298,966, \$316,056 and \$233,507, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$788,707, \$794,240 and \$780,807, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$17,241 made by the ESC and \$12,315 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$72,861, \$49,665 and \$141,073, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$19,239, \$18,795 and \$19,266, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$60,670, \$61,095 and \$60,062, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Services provided to other entities	\$ 4,311,356	\$ 4,311,356	\$ 4,546,437	\$ 235,081
Tuition	1,452,808	1,452,808	1,491,133	38,325
Earnings on investments	10,000	10,000	4,572	(5,428)
Intergovernmental - state	3,446,974	3,446,974	3,077,772	(369,202)
Total revenues	<u>9,221,138</u>	<u>9,221,138</u>	<u>9,119,914</u>	<u>(101,224)</u>
Expenditures:				
Current:				
Instruction:				
Regular	83,604	83,604	39,570	44,034
Special	2,048,623	2,048,623	1,799,439	249,184
Support services:				
Pupil	3,448,253	3,448,253	2,876,473	571,780
Instructional staff	1,396,829	1,396,829	1,389,732	7,097
Board of education	71,917	71,917	44,716	27,201
Administration	1,117,018	1,117,018	950,231	166,787
Fiscal	414,291	414,291	307,586	106,705
Business	178,485	178,485	159,727	18,758
Operations and maintenance	321,147	321,147	290,310	30,837
Central	873,772	873,772	496,597	377,175
Operation of non-instructional services	12,346	12,346	331,239	(318,893)
Total expenditures	<u>9,966,285</u>	<u>9,966,285</u>	<u>8,685,620</u>	<u>1,280,665</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(745,147)</u>	<u>(745,147)</u>	<u>434,294</u>	<u>1,179,441</u>
Other financing sources (uses):				
Refund of prior year expenditures	-	-	14,100	14,100
Refund of prior year receipts	-	-	(725)	(725)
Transfers in	-	-	98,653	98,653
Transfers (out)	(137,680)	(137,680)	(137,678)	2
Advances in	-	-	115,600	115,600
Advances (out)	-	-	(353,400)	(353,400)
Total other financing sources (uses)	<u>(137,680)</u>	<u>(137,680)</u>	<u>(263,450)</u>	<u>(125,770)</u>
Net change in fund balance	(882,827)	(882,827)	170,844	1,053,671
Fund balance at beginning of year (restated) . .	1,500,024	1,500,024	1,500,024	-
Prior year encumbrances appropriated	195,115	195,115	195,115	-
Fund balance at end of year	<u>\$ 812,312</u>	<u>\$ 812,312</u>	<u>\$ 1,865,983</u>	<u>\$ 1,053,671</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
Intergovernmental - federal	\$ 1,011,764	\$ 1,069,480	\$ 937,382	\$ (132,098)
Total revenues	<u>1,011,764</u>	<u>1,069,480</u>	<u>937,382</u>	<u>(132,098)</u>
Expenditures:				
Current:				
Instruction:				
Regular	108,275	113,609	93,195	20,414
Support services:				
Pupil	42,030	43,838	31,591	12,247
Instructional staff	825,271	865,606	704,742	160,864
Administration	144,510	151,167	116,319	34,848
Fiscal	38,755	40,973	38,755	2,218
Pupil transportation	16,127	16,832	12,316	4,516
Operation of non-instructional services	13,196	13,855	11,520	2,335
Total expenditures	<u>1,188,164</u>	<u>1,245,880</u>	<u>1,008,438</u>	<u>237,442</u>
Excess of expenditures over revenues	<u>(176,400)</u>	<u>(176,400)</u>	<u>(71,056)</u>	<u>105,344</u>
Other financing sources (uses):				
Advances in	-	-	85,300	85,300
Advances (out)	(119,001)	(119,001)	(110,000)	9,001
Total other financing sources (uses)	<u>(119,001)</u>	<u>(119,001)</u>	<u>(24,700)</u>	<u>94,301</u>
Net change in fund balance	(295,401)	(295,401)	(95,756)	199,645
Fund balance at beginning of year	21,873	21,873	21,873	-
Prior year encumbrances appropriated	132,263	132,263	132,263	-
Fund balance (deficit) at end of year	<u>\$ (141,265)</u>	<u>\$ (141,265)</u>	<u>\$ 58,380</u>	<u>\$ 199,645</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

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

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedules represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY PRIOR PERIOD ADJUSTMENT

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The ESC has elected to report only the legally budgeted general fund in the budgetary schedule; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

Budgetary Basis	
	<u>General Fund</u>
Balance at June 30, 2010	\$ 1,627,686
Funds budgeted elsewhere	<u>(127,662)</u>
Restated balance at July 1, 2010	<u><u>\$ 1,500,024</u></u>

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

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budget basis) - for the general fund and miscellaneous federal grants fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
4. Advances in and out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis schedules for the general fund and the miscellaneous federal grants fund:

	<u>General</u>	<u>Miscellaneous Federal Grants</u>
Budget basis	\$ 170,844	\$ (95,756)
Net adjustment for revenue accruals	(593,705)	(5,694)
Net adjustment for expenditure accruals	236,716	7,382
Net adjustment for other sources/uses	(38,075)	24,700
Funds budgeted elsewhere	203,733	-
Adjustment for encumbrances	<u>170,968</u>	<u>108,841</u>
GAAP basis	<u>\$ 150,481</u>	<u>\$ 39,473</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the rotary fund and scholarships fund as well as portions of the rotary internal services fund and other grants fund.

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December 29, 2011

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center (the ESC) as of and for the year ended June 30 2011, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Tri-County Educational Service Center
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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Tri-County Educational Service Center in a separate letter dated December 29, 2011.

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

Rea & Associates, Inc.

December 29, 2011

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

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

Compliance

We have audited the compliance of Tri-County Educational Service Center (the ESC) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The ESC's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the ESC complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the ESC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ESC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ESC's internal control over compliance.

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

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

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

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

Hea & Associates, Inc.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
U. S. Department of Education				
<i>(Passed through the Ohio Department of Education)</i>				
<i>Special Education Cluster</i>				
Preschool Grant	84.173	2010	\$ 644	\$ 7,228
Preschool Grant	84.173	2011	168,179	164,432
ARRA-Preschool Grant	84.392	2011	59,888	66,201
Parent-Mentor Program	84.027	2010/2011	24,355	23,589
Total Special Education Cluster			<u>253,066</u>	<u>261,450</u>
<i>Title III</i>				
Title III	84.365	2010	0	9,857
Title III	84.365	2011	57,393	52,589
Total Title III			<u>57,393</u>	<u>62,446</u>
<i>21st Century Grant</i>				
21st Century Learning (Ashland and Wooster)	84.287	2010	6,503	12,969
21st Century Learning (ACCA and Parkview)	84.287	2010	18,138	28,128
21st Century Learning (Opportunity School)	84.287	2010	9,686	15,883
21st Century Learning (Ashland and Wooster)	84.287	2011	150,000	143,215
21st Century Learning (ACCA and Parkview)	84.287	2011	195,312	180,674
21st Century Learning (Opportunity School)	84.287	2011	104,032	80,625
21st Century Learning (Ashland and West Holmes MS)	84.287	2011	185,401	148,309
Total 21st Century Learning			<u>669,072</u>	<u>609,803</u>
Advanced Placement Program	84.330	2011	3,229	3,229
<i>(Passed through the Ashland County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2010/2011	31,294	31,294
ARRA - IDEA Part C - Help Me Grow Program	84.393A	2010/2011	35,141	32,167
Total Special Education for Infants and Families Cluster			<u>66,435</u>	<u>63,461</u>
<i>(Passed through the Wayne County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2010/2011	79,690	79,691
ARRA - IDEA Part C - Help Me Grow Program	84.393A	2010/2011	49,384	73,799
Total Special Education for Infants and Families Cluster			<u>129,074</u>	<u>153,490</u>
<i>Memo subtotal - Special Ed. for Infants & Families (non-ARRA)</i>	<i>84.181</i>	<i>2010/2011</i>	<i>110,984</i>	<i>110,985</i>
<i>Memo subtotal - ARRA Special Ed. for Infants & Families</i>	<i>84.393A</i>	<i>2010/2011</i>	<i>84,525</i>	<i>105,966</i>
<i>Received directly from the U.S. Department of Education</i>				
Teaching American History Grant	84.215X	2011	274,200	274,200
Bullying Prevention Training Program	84.215K	2010	15,593	15,593
Total U.S. Department of Education			<u>1,468,062</u>	<u>1,443,672</u>
U.S. Department of Labor				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act Cluster</i>				
WIA Youth Transitions Program	17.259	2011	169,823	208,999
ARRA - WIA Youth Transitions Program	17.259	2010	32,424	0
Total WIA Cluster			<u>202,247</u>	<u>208,999</u>
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act Cluster</i>				
WIA Youth Transitions Program	17.259	2011	128,614	163,797
ARRA - WIA Youth Transitions Program	17.259	2010	13,445	0
Total WIA Cluster			<u>142,059</u>	<u>163,797</u>
<i>Memo subtotal - WIA Youth Transitions Program (Non-ARRA)</i>	<i>17.259</i>	<i>2010/2011</i>	<i>298,437</i>	<i>372,796</i>
<i>Memo subtotal - ARRA WIA Youth Transitions Program</i>	<i>17.259</i>	<i>2010/2011</i>	<i>45,869</i>	<i>0</i>
Total U.S. Department of Labor			<u>344,306</u>	<u>372,796</u>
U.S. Department of Health & Human Services				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
TANF Child Literacy Program	93.558	2010/2011	220,191	213,850
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
TANF Transitions Program	93.558	2010/2011	56,772	44,530
ARRA TANF Summer Transitions Program	93.558	2010/2011	163,830	162,390
<i>Memo subtotal - TANF</i>	<i>93.558</i>	<i>2010/2011</i>	<i>440,793</i>	<i>420,770</i>
<i>(Passed Through the Ohio Department of MRDD)</i>				
Community Alternative Funding System	93.778		18,842	0
Total U.S. Department of Health & Human Services			<u>459,635</u>	<u>420,770</u>
Total Federal Assistance			<u>\$ 2,272,003</u>	<u>\$ 2,237,238</u>

The accompany notes are an integral part of this schedule.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note A – Significant Accounting Policies

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

Note B – Community Alternative Funding System

The Educational Service Center received \$18,842 of CAFS settlement in fiscal year 2011. The amount received relates to CAFS service provided during prior years.

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1)(vii)	Major Programs (list):	TANF - #93.558 21st Century Learning #84.287
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted

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Dave Yost • Auditor of State

TRI-COUNTY EDUCATIONAL SERVICE CENTER

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2012