



Rea & associates *a brighter way*

Tri-County Educational Service Center Wayne County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



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, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 9, 2014

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

TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	PAGE
Independent Auditor’s Report.....	1-3
Management’s Discussion and Analysis.....	4-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis	10
Statement of Activities – Cash Basis.....	11
Fund Financial Statements:	
Statement of Assets and Fund Balances – Cash Basis – Governmental Funds	12
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities – Cash Basis	13
Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds.....	14
Reconciliation of the Statement of Receipts, Disbursements and Changes In Fund Balances of Governmental Funds to the Statement of Activities – Cash Basis	15
Statement of Fund Net Position – Cash Basis – Proprietary Fund	16
Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis – Proprietary Fund	17
Statement of Fiduciary Net Position – Cash Basis – Fiduciary Fund.....	18
Notes to the Basic Financial Statements.....	19-33
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards.....	34-35
Independent Auditor’s Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133.....	36-37
Schedule of Expenditures of Federal Awards	38
Notes to the Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs.....	40-41
Schedule of Prior Audit Findings	42

November 5, 2013

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio (the ESC), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the ESC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of June 30, 2014, and the respective changes in cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the ESC's financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* includes tables of net position, changes in net position and governmental activities. The Schedule of Expenditures of Federal Awards (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional analysis and are not a required part of the basic financial statements.

These tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The discussion and analysis of the Tri-County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the ESC's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position increased \$1,317,136, which represents a 26.5 percent increase from fiscal year 2013.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole ESC. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2014, the general fund is the ESC's most significant fund.

Basis of Accounting

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

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

Reporting the ESC as a Whole

Statement of Net Position 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 2014?" The statement of net position and the statement of activities answer this question.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental fund is the general fund.

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

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

Reporting the ESC's Fiduciary Responsibilities

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

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The ESC as a Whole

Table 1 provides a summary of the ESC's net position for fiscal year 2014 compared to 2013.

(Table 1)
Net Position –Cash Basis

	Governmental Activities	
	2014	2013
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 4,764,538	\$ 3,862,490
Cash and Cash Equivalents with Fiscal Agents	1,514,854	1,099,766
<i>Total Assets</i>	\$ 6,279,392	\$ 4,962,256
Net Position		
Restricted for Other Purposes	\$ 103,936	\$ 141,528
Unrestricted	6,175,456	4,820,728
<i>Total Net Position</i>	\$ 6,279,392	\$ 4,962,256

Net position of the governmental activities increased \$1,317,136, which represents a 26.5 percent increase from fiscal year 2013.

A portion of the ESC's net position, \$103,936 or 1.7 percent, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$6,175,456 may be used to meet the ESC's ongoing obligations.

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Table 2 shows the changes in net position for fiscal year 2014 as compared to fiscal year 2013.

(Table 2)
Changes in Net Position –Cash Basis

	Governmental Activities	
	2014	2013
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 11,913,746	\$ 10,218,660
Operating Grants, Contributions and Interest	1,333,733	1,242,409
<i>Total Program Receipts</i>	<u>13,247,479</u>	<u>11,461,069</u>
<i>General Receipts</i>		
Grants and Entitlements not Restricted to		
Specific Programs	1,232,346	2,954,632
Investment Earnings	5,112	9,010
Miscellaneous	37,798	16,507
<i>Total General Receipts</i>	<u>1,275,256</u>	<u>2,980,149</u>
<i>Total Receipts</i>	<u>14,522,735</u>	<u>14,441,218</u>
<i>Program Disbursements</i>		
Instruction:		
Regular	870,350	643,551
Special	3,330,472	2,836,691
Adult/Continuing Education	33,352	72,065
Other	50,953	127,653
Support Services:		
Pupils	3,546,665	3,791,539
Instructional Staff	708,769	1,316,862
Board of Education	62,058	51,652
Administration	952,996	1,048,073
Fiscal	352,498	334,294
Business	27,742	70,371
Operation and Maintenance of Plant	258,086	271,218
Pupil Transportation	4,307	9,325
Central	2,461,964	2,625,233
Operation of Non-Instructional Services:		
Community Services	545,387	576,780
<i>Total Program Disbursements</i>	<u>13,205,599</u>	<u>13,775,307</u>
<i>Change in Net Position</i>	1,317,136	665,911
<i>Net Position Beginning of Year</i>	<u>4,962,256</u>	<u>4,296,345</u>
<i>Net Position End of Year</i>	<u>\$ 6,279,392</u>	<u>\$ 4,962,256</u>

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The state changed its funding formula for education service centers in Ohio, which caused the \$1,722,286 decrease in grants and entitlements not restricted to specific programs. As a direct result, the ESC was forced to increase charges to its member schools, resulting in an increase of \$1,695,086 in charges for sales and services.

Fluctuations between Special Instruction and Instructional Staff Support Services expenses can be attributed to the re-coding of expenses in accordance with the revised expenditure standards approved by the State Board of Education on December 11, 2012. The expenditure standards revisions addressed operating expenditures and classroom instruction versus non-classroom expenditures.

Governmental Activities

Total governmental disbursements of \$13,205,599 were offset by program receipts of \$13,247,479 and general receipts of \$1,275,256.

Program receipts supported 100 percent of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from contracted fees for services provided to other entities. This receipt source represents 82.0 percent of total governmental receipts.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)
Governmental Activities –Cash Basis

	<u>Total Costs of Services</u>		<u>Net Costs of Services</u>	
	2014	2013	2014	2013
<i>Program Disbursements</i>				
<i>Instruction:</i>				
Regular	\$ 870,350	\$ 643,551	\$ 28,146	\$ 86,016
Special	3,330,472	2,836,691	(316,273)	165,169
Adult/Continuing Education	33,352	72,065	(135,105)	(62,583)
Other	50,953	127,653	6,102	(23,627)
<i>Support Services:</i>				
Pupils	3,546,665	3,791,539	111,543	1,010,272
Instructional Staff	708,769	1,316,862	22,234	327,885
Board of Education	62,058	51,652	187	16,488
Administration	952,996	1,048,073	6,240	185,996
Fiscal	352,498	334,294	7,122	99,812
Business	27,742	70,371	244	22,464
Operation and Maintenance of Plant	258,086	271,218	24,352	84,905
Pupil Transportation	4,307	9,325	(884)	632
Central	2,461,964	2,625,233	323,760	416,991
<i>Operation of Non-Instructional Services:</i>				
Community Services	545,387	576,780	(119,548)	(16,182)
<i>Total</i>	<u>\$ 13,205,599</u>	<u>\$ 13,775,307</u>	<u>\$ (41,880)</u>	<u>\$ 2,314,238</u>

Tri-County Educational Service Center
Wayne County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The ESC's Funds

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

The ESC's governmental funds reported a combined fund balance of \$4,764,538, which is higher than the prior year balance of \$3,862,490.

The general fund had total cash receipts of \$13,369,847. The cash disbursements of the general fund totaled \$12,465,057. The general fund's fund balance increased \$939,640 in 2014. The increase in fund balance can be attributed to receipts outpacing disbursements, as a result of timing differences between services provided and receipt collections.

Current Issues

The ESC is currently financially viable. The Board and administration closely monitor its receipts and disbursements in accordance with Board policy. The ESC is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, including the state 75 percent reduction for 2014, the ESC continues to provide the best services possible and to be fiscally responsible.

Contacting the ESC's Financial Management

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

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Net Position - Cash Basis
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,764,538
Cash and Cash Equivalents with Fiscal Agents	<u>1,514,854</u>
<i>Total Assets</i>	<u><u>\$ 6,279,392</u></u>
Net Position	
Restricted for Other Purposes	\$ 103,936
Unrestricted	<u>6,175,456</u>
<i>Total Net Position</i>	<u><u>\$ 6,279,392</u></u>

See accompanying notes to the basic financial statements.

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

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2014*

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 870,350	\$ 546,037	\$ 296,167	\$ (28,146)
Special	3,330,472	3,583,637	63,108	316,273
Adult/Continuing Education	33,352	168,457	0	135,105
Other	50,953	0	44,851	(6,102)
Support Services:				
Pupils	3,546,665	3,145,784	289,338	(111,543)
Instructional Staff	708,769	440,995	245,540	(22,234)
Board of Education	62,058	61,871	0	(187)
Administration	952,996	794,713	152,043	(6,240)
Fiscal	352,498	288,731	56,645	(7,122)
Business	27,742	27,498	0	(244)
Operation and Maintenance of Plant	258,086	233,734	0	(24,352)
Pupil Transportation	4,307	0	5,191	884
Central	2,461,964	2,138,204	0	(323,760)
Operation of Non-Instructional Services:				
Community Services	545,387	484,085	180,850	119,548
Totals	<u>\$ 13,205,599</u>	<u>\$ 11,913,746</u>	<u>\$ 1,333,733</u>	<u>41,880</u>

General Receipts

Grants and Entitlements not Restricted to Specific Programs	1,232,346
Investment Earnings	5,112
Miscellaneous	37,798

Total General Receipts 1,275,256

Change in Net Position 1,317,136

Net Position Beginning of Year 4,962,256

Net Position End of Year \$ 6,279,392

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,660,602	\$ 103,936	\$ 4,764,538
Fund Balances			
Restricted	\$ 0	\$ 103,936	\$ 103,936
Committed	50,000	0	50,000
Assigned	1,904,880	0	1,904,880
Unassigned	2,705,722	0	2,705,722
<i>Total Fund Balances</i>	<u>\$ 4,660,602</u>	<u>\$ 103,936</u>	<u>\$ 4,764,538</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 Position of Governmental Activities - Cash Basis
June 30, 2014

Total Governmental Fund Balances	\$ 4,764,538
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*Amounts reported for governmental activities in the
statement of net position are different because:*

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

1,514,854

Net Position of Governmental Activities

\$ 6,279,392

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$ 1,417,964	\$ 1,147,914	\$ 2,565,878
Investment Income	938	0	938
Tuition and Fees	637,408	0	637,408
Gifts and Donations	200	0	200
Charges for Services	11,276,339	0	11,276,339
Miscellaneous	36,998	800	37,798
<i>Total Receipts</i>	<u>13,369,847</u>	<u>1,148,714</u>	<u>14,518,561</u>
Disbursements			
Current:			
Instruction:			
Regular	608,498	303,538	912,036
Special	3,407,210	65,801	3,473,011
Adult/Continuing Education	33,352	0	33,352
Other	0	50,953	50,953
Support Services:			
Pupils	3,368,175	274,932	3,643,107
Instructional Staff	469,845	243,234	713,079
Board of Education	62,058	0	62,058
Administration	842,638	152,389	995,027
Fiscal	308,156	52,671	360,827
Business	27,742	0	27,742
Operation and Maintenance of Plant	258,086	0	258,086
Pupil Transportation	0	4,307	4,307
Central	2,517,496	782	2,518,278
Operation of Non-Instructional Services:			
Community Services	561,801	2,849	564,650
<i>Total Disbursements</i>	<u>12,465,057</u>	<u>1,151,456</u>	<u>13,616,513</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>904,790</u>	<u>(2,742)</u>	<u>902,048</u>
Other Financing Sources (Uses)			
Advances In	63,850	29,000	92,850
Advances Out	(29,000)	(63,850)	(92,850)
<i>Total Other Financing Sources (Uses)</i>	<u>34,850</u>	<u>(34,850)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	939,640	(37,592)	902,048
<i>Fund Balances Beginning of Year</i>	<u>3,720,962</u>	<u>141,528</u>	<u>3,862,490</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,660,602</u>	<u>\$ 103,936</u>	<u>\$ 4,764,538</u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center

Wayne County, Ohio

*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds	\$ 902,048
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*Amounts reported for governmental activities in the
statement of activities are different because:*

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund expenditures and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements).	<u>415,088</u>
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<i>Change in Net Position of Governmental Activities</i>	<u><u>\$ 1,317,136</u></u>
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See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Fund
June 30, 2014

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
Assets	
Cash and Cash Equivalents with Fiscal Agents	<u>\$ 1,514,854</u>
Net Position	
Unrestricted	<u>\$ 1,514,854</u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	<u>Governmental Activities - Internal Service Fund</u>
Operating Receipts	
Charges for Services	<u>\$ 1,847,772</u>
Operating Disbursements	
Purchased Services	560,433
Claims	<u>876,425</u>
<i>Total Operating Disbursements</i>	<u>1,436,858</u>
<i>Operating Income</i>	<u>410,914</u>
Non-Operating Receipts	
Interest	<u>4,174</u>
<i>Change in Net Position</i>	415,088
<i>Net Position Beginning of Year</i>	<u>1,099,766</u>
<i>Net Position End of Year</i>	<u><u>\$ 1,514,854</u></u>

See accompanying notes to the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Fund
June 30, 2014

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

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, 2014

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 and Ashland Counties. The Board controls the ESC’s instructional support services.

Reporting Entity

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

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

The ESC is associated with the Tri-County Computer Service Association (TCCSA), a jointly governed organization; the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers’ Compensation Group Rating Program (GRP), the Schools of Ohio Risk Sharing Authority Board (SORSA) and the Jefferson Health Plan, which are public entity risk pools. These organizations are presented in Notes 11 and 12.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the ESC’s accounting policies.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" receipts and disbursements.

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

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

B. Fund Accounting

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

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

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

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

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

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

E. Cash and Cash Equivalents

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

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

During fiscal year 2014, investments were limited to investments in the State Treasury Asset Reserve of Ohio ("STAR Ohio").

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2014.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$938, which includes \$240 assigned from other ESC funds.

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

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Interfund Receivables/Payables

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

I. Accumulated Leave

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

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

J. Employer Contributions to Cost-Sharing Plans

The ESC recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Fund Balance

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

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

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

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

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

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

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

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes primarily includes amounts for activities associated with assisting the instructional staff with the content and process of providing learning experiences for pupils.

The ESC's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

M. Interfund Transactions

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

N. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2014, the ESC has implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*" and GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*"

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the ESC.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the ESC.

Note 3 – Compliance

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

Note 4 - Deposits and Investments

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

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the ESC's name. During fiscal year 2014, the ESC and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the ESC's deposits was \$756,209. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*," as of June 30, 2014, \$680,481 of the ESC's bank balance of \$930,481 was exposed to custodial risk as discussed above and \$250,000 was covered by depository insurance.

Investments

As of June 30, 2014, the ESC had the following investment and maturity:

Investment Type	Fair Value	Investment Maturity Less than 3 Months	Total Investments
Star Ohio	\$4,019,135	\$4,019,135	100.00%

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.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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

Credit Risk. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2014, is 51 days and carries a rating of AAAM by Standard and Poor's. The ESC has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The ESC places no limit on the amount that may be invested in any one issuer. The table above includes the percentage to total of each investment type held by the ESC at June 30, 2014.

Funds Held by Fiscal Agent

The ESC participates in the Jefferson Health Plan for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was \$1,514,854. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Note 5 – 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 ESCs to which the ESC provides services from payments made under the State's foundation program.

Simultaneously, \$37.00 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 ESCs approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating ESCs through reductions in their State foundation.

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

Note 6 - 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 2014, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance coverage.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

General liability coverage is \$12,000,000 annual aggregate/\$14,000,000 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 2014, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESCs is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school ESCs within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school ESCs that can meet the GRPs selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 7 - Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$343,422, \$292,932 and \$324,004, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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.

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 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 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$821,208, \$797,352 and \$865,192, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$51,984 made by the ESC and \$40,845 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, certain members of the Board of Education have elected social security. The Board’s liability is 6.2 percent of wages paid.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Note 8 – Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 fiscal year 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$39,268, \$34,562, and \$49,593, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the 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, 2014, 2013, and 2012 were \$19,924, \$16,547 and \$19,134, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. State Teachers Retirement System

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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the 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 fiscal year 2014, 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, 2014, 2013, and 2012 were \$63,170, \$61,335, and \$66,553, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

Note 9 – Fund Balance

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

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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

	General	Other Governmental Funds	Total
Restricted for:			
Local Grants	\$ 0	\$ 3,003	\$ 3,003
State Grants	0	12,712	12,712
Federal Grants	0	88,221	88,221
Total Restricted	<u>0</u>	<u>103,936</u>	<u>103,936</u>
Committed for:			
Retirement	<u>50,000</u>	<u>0</u>	<u>50,000</u>
Assigned for:			
Student Instruction	13,861	0	13,861
Student and Staff Support	150,201	0	150,201
Community Services	24,055	0	24,055
District Escrow Accounts	67,339	0	67,339
Preschool Activities	736,540	0	736,540
Other Purposes	912,884	0	912,884
Total Assigned	<u>1,904,880</u>	<u>0</u>	<u>1,904,880</u>
Unassigned	<u>2,705,722</u>	<u>0</u>	<u>2,705,722</u>
<i>Total Fund Balance</i>	<u>\$ 4,660,602</u>	<u>\$ 103,936</u>	<u>\$ 4,764,538</u>

Note 10 – Interfund Advances

The purpose of the interfund advances from other governmental funds to the general fund is to repay advances from the prior year. At June 30, 2014, the general fund had an unpaid interfund cash advance in the amount of \$29,000 to the miscellaneous state grants fund to cover costs where revenues were not received by June 30. All interfund advances are expected to be repaid within one year.

Note 11 - Jointly Governed Organization

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

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Note 12 – Public Entity Risk Pools

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

Schools of Ohio Risk Sharing Authority Board The ESC also 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.

Jefferson Health Plan– The ESC participates in the Jefferson Health Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan’s business and affairs are conducted by a nine member Board of Directors elected from the OME-RESA’s assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

Note 13 – Contingencies and Commitments

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2014.

B. Litigation

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

C. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$188,117 in the general fund and \$68,732 in the non-major governmental funds.

November 5, 2014

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 REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center, Wayne County, Ohio (the ESC), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements, and have issued our report thereon dated November 5, 2014, wherein we noted the ESC uses a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the ESC's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the ESC's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Entity's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2014-001.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the ESC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

November 5, 2014

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Tri-County Educational Service Center's (the ESC's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could directly and materially affect the ESC's major federal program for the year ended June 30, 2014. The Summary of Auditor's Results in the accompanying schedule of findings identifies the ESC's major federal program.

Management's Responsibility

The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the ESC's compliance for the ESC's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the ESC's major federal program. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on the Major Federal Program

In our opinion, the ESC complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the ESC's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *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 federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	2013	\$ 11,853	\$ 26,989
Preschool Grant	84.173	2014	169,270	152,413
Parent-Mentor Program	84.027	2013	0	1,446
Parent-Mentor Program	84.027	2014	23,245	23,072
Total Special Education Cluster			204,368	203,920
<i>Title III</i>				
Title III	84.365	2013	975	4,631
Title III	84.365	2014	37,581	36,859
Total Title III			38,556	41,490
<i>21st Century Community Learning Centers</i>				
21st Century Community Learning Centers	84.287	2013	5,094	28,026
21st Century Community Learning Centers	84.287	2014	434,106	370,116
Total 21st Century Community Learning Centers			439,200	398,142
<i>ARRA - Race to the Top</i>				
ARRA - Race to the Top - TeachOhio	84.395	2013	120,869	138,062
ARRA - Race to the Top - Resident Educator Program	84.395	2014	350	0
ARRA - Race to the Top - OPES Training Grant	84.395	2013	0	1,725
Total ARRA - Race to the Top			121,219	139,787
<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	2013/2014	76,885	83,693
Total Special Education for Infants and Families Cluster			76,885	83,693
<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	2013/2014	94,162	103,491
Total Special Education for Infants and Families Cluster			94,162	103,491
<i>Received directly from the U.S. Department of Education</i>				
Teaching American History Grant	84.215	2012	79,896	80,196
Total U.S. Department of Education			1,054,286	1,050,719
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	2013	18,035	5,022
WIA Youth Transitions Program	17.259	2014	122,682	130,351
Total WIA Cluster			140,717	135,373
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act Cluster</i>				
WIA Youth Transitions Program	17.259	2013	42,032	10,748
WIA Youth Transitions Program	17.259	2014	138,093	168,758
Total WIA Cluster			180,125	179,506
Total U.S. Department of Labor			320,842	314,879
U.S. Department of Health & Human Services				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
<i>TANF Transitions Summer Program</i>				
TANF Transitions Summer Program	93.558	2013	39,419	38,886
TANF Transitions Summer Program	93.558	2014	0	2,639
Total TANF			39,419	41,525
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
<i>TANF Transitions Summer Program</i>				
TANF Transitions Summer Program	93.558	2013	173,412	168,144
TANF Transitions Summer Program	93.558	2014	0	12,162
Total TANF			173,412	180,306
Total U.S. Department of Health & Human Services			212,831	221,831
Total Federal Assistance			\$ 1,587,959	\$ 1,587,429

The accompanying notes are an integral part of this schedule

Tri-County Educational Service Center
Wayne County, Ohio
Notes to the Schedule of Expenditures Federal Awards
For the Fiscal Year Ended June 30, 2014

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the ESC under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the ESC, it is not intended to and does not present the net position or changes in net position.

Note B – Significant Accounting Policies

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

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2014

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2014

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

Material Non-Compliance

Finding Number: 2014-001

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.

Condition: The ESC chose to prepare its financial statements and notes on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP, which is required by Ohio Rev. Code Section 117.38 and Ohio Administrative Code 117-02-03(B).

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

Potential Effect: The financial statements and notes omit certain assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the ESC may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Recommendation: We recommend the ESC review the new standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments*. We also recommend the ESC prepare its financial statements in accordance with Ohio Revised Code and Ohio Administrative Code.

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None noted

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

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2013-001	Material Non-Compliance – The ESC’s financial statements were prepared on a cash basis.	No	Repeated as Finding 2014-001

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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
DECEMBER 23, 2014