



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual Serrc - Title VI-B Fund.....	17
Statement of Fund Net Assets Internal Service Fund.....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Fund.....	19
Statement of Cash Flows	20
Notes to the Basic Financial Statements	21
Schedule of Receipts and Expenditures of Federal Awards.....	41
Notes to the Schedule of Receipts and Expenditures of Federal Awards	42
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	43
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	45
Schedule of Findings and Questioned Costs.....	47

This page intentionally left blank



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General and Title VI-B funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Educational Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In addition, as described in Note 12, the Educational Service Center increased its capitalization threshold for capital assets from \$250 to \$1,000 during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion & Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 3, 2004

Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Tri-County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Some analysis with prior year data cannot be generated by definition since this is the first year of presentation.
- In total, net assets increased by \$37,054.
- Revenues for governmental activities totaled \$12,350,261 in 2004. Of this total, 41 percent consisted of general revenues while program revenues accounted for the balance of 59 percent.
- Program expenses totaled \$12,311,707. Instructional expenses made up 8 percent of this total while support services accounted for 74 percent. Other expenses rounded out the remaining 18 percent.

Using this Annual Financial Report

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Tri-County Educational Service Center, the general fund by far is the most significant fund.

Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Effective with this fiscal year, the *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 12. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund and the SERRC's Title VI-B fund.

Governmental Funds

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

Table 1
Net Assets

	<i>Governmental Activities</i>	
	2004	2003
Assets		
Current and Other Assets	\$ 4,409,319	\$4,196,633
Capital Assets, Net	744,394	755,985
Total Assets	5,153,713	4,952,618
Liabilities		
Current and Other Liabilities	1,329,261	1,232,650
Long-Term Liabilities		
Due Within One Year	260,859	209,355
Due in More than One Year	150,728	134,802
Total Liabilities	1,740,848	1,576,807
Net Assets		
Invested in Capital Assets, Net of Debt	744,394	755,985
Restricted	322,506	411,557
Unrestricted	2,345,965	2,208,269
Total Net Assets	\$3,412,865	\$3,375,811

Total assets increased by \$201,095. Cash and cash equivalents increased by \$308,733. The increase is attributed to an increase in collections from tuition and fees and customer service charges. Liabilities increased as a result of an increase in accounts payables of \$129,825.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center improved as evidenced by the increase in net assets of \$37,054.

Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	<i>Governmental Activities 2004</i>
Revenues	
Program Revenues:	
Charges for Services	\$5,216,079
Operating Grants and Contributions	2,075,422
<i>Total Program Revenues</i>	7,291,501
General Revenues:	
Grants and Entitlements	5,024,911
Investments	33,849
<i>Total General Revenues and Transfers</i>	5,058,760
<i>Total Revenues</i>	12,350,261
Program Expenses	
Instruction:	
Regular	391,032
Special	481,866
Adult/Continuing	86,321
Support Services:	
Pupil	2,038,607
Instructional Staff	5,409,210
Board of Education	40,034
Administration	971,739
Fiscal	325,720
Business	173,606
Operation and Maintenance of Plant	188,277
Central	30,271
Operation of Non-Instructional Services	2,175,024
<i>Total Program Expenses</i>	12,311,707
Excess Before Transfers	38,554
<i>Transfers</i>	(1,500)
<i>Increase in Net Assets</i>	\$ 37,054

Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same. Prior year comparison is not available due to the initial year implementation of this accounting presentation.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$5,020,206, Net Cost of Services 2004, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2004</i>
Instruction:		
Regular	\$391,032	(\$36,155)
Special	481,866	(280,957)
Adult/Continuing	86,321	18,155
Support Services:		
Pupil	2,038,607	(1,738,638)
Instructional Staff	5,409,210	(491,106)
Board of Education	40,034	(40,034)
Administration	971,739	(530,974)
Fiscal	325,720	(257,862)
Business	173,606	(135,469)
Operation and Maintenance of Plant	188,277	(154,264)
Central	30,271	(30,271)
Operation of Non-Instructional Services	2,175,024	(1,342,631)
<i>Total</i>	\$12,311,707	(\$5,020,206)

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found on page 24&25 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,350,261 and expenditures and other financing uses totaled \$12,393,500. The General Fund balance increased \$45,786 primarily due to increased collection for customer services. The SERRC Title VI-B Fund balance decreased by \$156,068 due to additional special education services provided to school districts during the fiscal year.

Tri-County Educational Service Center
Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the Educational Service Center amended its general fund budget, but not significantly. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year several federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

For the general fund, the final budget basis revenue estimate totaled \$10,556,468; this was above the original budget estimate of \$10,413,118. The main difference was increased collections from intergovernmental sources. The budget basis expenditures estimate totaled \$12,911,088 compared to original estimates of \$12,580,049. The increase in the budget can be attributed to increased services provided to participating school districts. The final budget basis expenditures estimate totaled \$12,911,088; this was above the actual expenditures of \$10,610,210. This can be attributed to the educational service center budgeting \$1,506,944 more in support services instructional staff expenditure than was actually spent.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Educational Service Center had \$744,394 invested in land, building and building improvements, furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2004 values compared to 2003.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<i>Governmental Activities</i>	
	<i>2004</i>	<i>2003</i>
Land	\$77,981	\$77,981
Buildings and Improvements	376,101	361,865
Furniture and Fixtures	732,252	674,099
Accumulated Depreciation	(441,940)	(357,960)
<i>Totals</i>	<i>\$744,394</i>	<i>\$755,985</i>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 12 of the basic financial statements.

Current Financial Related Activities

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

*Tri-County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Contacting the Educational Service Center District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jill Meng, Treasurer, at Tri-County Educational Service Center, 741 Winkler Drive, Wooster, Ohio 44691 or calling 330-345-6771.

Tri-County Educational Service Center

Statement of Net Assets

June 30, 2004

	<i>Governmental Activities</i>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$3,272,313
Cash and Cash Equivalents with Fiscal Agent	182,376
Accrued Interest Receivable	1,541
Intergovernmental Receivable	953,089
Non-Depreciable Capital Assets	77,981
Depreciable Capital Assets, net	666,413
<i>Total Assets</i>	5,153,713
<i>Liabilities</i>	
Accounts Payable	234,797
Accrued Wages and Benefits	850,092
Intergovernmental Payable	176,372
Claims Payable	68,000
Long-Term Liabilities:	
Due Within One Year	260,859
Due in More Than One Year	150,728
<i>Total Liabilities</i>	1,740,848
<i>Net Assets</i>	
Invested in Capital Assets, Net of Related Debt	744,394
Restricted for Other Purposes	322,506
Unrestricted	2,345,965
<i>Total Net Assets</i>	\$3,412,865

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	<u>Program Revenues</u>		
	<u>Charges for</u>	<u>Operating</u>	
	<u>Services</u>	<u>Grants and</u>	
<u>Expenses</u>	<u>and Sales</u>	<u>Contributions</u>	<u>Net(Expense) Revenue</u>
			<u>and Changes</u>
			<u>in Net Assets</u>
Governmental Activities			
Instruction:			
Regular	\$391,032	\$261,988	\$92,889
Special	481,866	188,146	12,763
Adult/Continuing	86,321	104,476	0
Support Services:			
Pupils	2,038,607	283,493	16,476
Instructional Staff	5,409,210	3,390,345	1,527,759
Board of Education	40,034	0	0
Administration	971,739	68,907	371,858
Fiscal	325,720	47,094	20,764
Business	173,606	38,137	0
Operation and Maintenance of Plant	188,277	1,100	32,913
Central	30,271	0	0
Operation of Non-Instructional Services	<u>2,175,024</u>	<u>832,393</u>	<u>0</u>
Totals	<u>\$12,311,707</u>	<u>\$5,216,079</u>	<u>\$2,075,422</u>
			<u>(\$5,020,206)</u>
General Revenues			
Grants and Entitlements not Restricted to Specific Programs			5,024,911
Investment Earnings			33,849
Transfers			<u>(1,500)</u>
Total General Revenues and Transfers			<u>5,057,260</u>
Change in Net Assets			37,054
Net Assets Beginning of Year - Restated (See Note 3)			<u>3,375,811</u>
Net Assets End of Year			<u><u>\$3,412,865</u></u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2004

	<u><i>General Fund</i></u>	<u><i>SERRC Title VI-B</i></u>	<u><i>Other Governmental Funds</i></u>	<u><i>Total Governmental Funds</i></u>
<i>Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$2,816,448	\$230,243	\$225,622	\$3,272,313
Accrued Interest Receivable	1,541	0	0	1,541
Intergovernmental Receivable	886,253	55,520	11,316	953,089
<i>Total Assets</i>	<u><u>\$3,704,242</u></u>	<u><u>\$285,763</u></u>	<u><u>\$236,938</u></u>	<u><u>\$4,226,943</u></u>
<i>Liabilities</i>				
Accounts Payable	\$198,725	\$14,256	\$21,816	\$234,797
Accrued Wages and Benefits	757,911	55,166	37,015	850,092
Intergovernmental Payable	119,316	8,898	14,596	142,810
<i>Total Liabilities</i>	<u><u>1,075,952</u></u>	<u><u>78,320</u></u>	<u><u>73,427</u></u>	<u><u>1,227,699</u></u>
<i>Fund Balances</i>				
Reserved for Encumbrances	281,796	63,649	103,074	448,519
Unreserved, Undesignated, Reported in:				
General Fund	2,346,494	0	0	2,346,494
Special Revenue Funds	0	143,794	60,437	204,231
<i>Total Fund Balances</i>	<u><u>2,628,290</u></u>	<u><u>207,443</u></u>	<u><u>163,511</u></u>	<u><u>2,999,244</u></u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$3,704,242</u></u>	<u><u>\$285,763</u></u>	<u><u>\$236,938</u></u>	<u><u>\$4,226,943</u></u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004*

<i>Total Governmental Fund Balances</i>	\$2,999,244
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	744,394
Intergovernmental Payable includes contractually required pension obligations not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(33,562)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	114,376
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(411,587)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$3,412,865</u></u>

Tri-County County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	<u>General Fund</u>	<u>SERRC Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Intergovernmental	\$5,307,633	\$1,135,086	\$919,423	\$7,362,142
Interest	33,849	0	0	33,849
Tuition and Fees	242,194	0	0	242,194
Gifts and Donations	124,275	0	0	124,275
Customer Sales and Services	4,550,878	0	0	4,550,878
Miscellaneous	36,923	0	0	36,923
Total Revenues	<u>10,295,752</u>	<u>1,135,086</u>	<u>919,423</u>	<u>12,350,261</u>
Expenditures				
Current:				
Instruction:				
Regular	299,764	0	102,346	402,110
Special	469,012	0	20,122	489,134
Adult/Continuing	86,321	0	0	86,321
Support Services:				
Pupils	2,007,566	20,549	13,476	2,041,591
Instructional Staff	3,982,776	801,056	657,840	5,441,672
Board of Education	39,737	0	0	39,737
Administration	557,108	370,888	28,496	956,492
Fiscal	262,422	41,640	22,800	326,862
Business	177,739	0	0	177,739
Operation and Maintenance of Plant	144,544	57,021	0	201,565
Central	22,971	0	7,300	30,271
Operation of Non-Instructional Services	2,198,506	0	0	2,198,506
Total Expenditures	<u>10,248,466</u>	<u>1,291,154</u>	<u>852,380</u>	<u>12,392,000</u>
Excess of Revenues Over (Under) Expenditures	<u>47,286</u>	<u>(156,068)</u>	<u>67,043</u>	<u>(41,739)</u>
Other Financing Uses				
Transfers Out	(1,500)	0	0	(1,500)
Total Other Financing Uses	<u>(1,500)</u>	<u>0</u>	<u>0</u>	<u>(1,500)</u>
Net Change in Fund Balances	45,786	(156,068)	67,043	(43,239)
Fund Balances Beginning of Year- Restated (See Note 3)	<u>2,582,504</u>	<u>363,511</u>	<u>96,468</u>	<u>3,042,483</u>
Fund Balances End of Year	<u>\$2,628,290</u>	<u>\$207,443</u>	<u>\$163,511</u>	<u>\$2,999,244</u>

See Accompanying Notes to the Basic Financial Statements

Tri-County County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$43,239)

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

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	72,389	
Depreciation	<u>(83,980)</u>	
 Total		 (11,591)

Some expenses reported in the statement of activities, such as compensated absences
and pension obligations, do not require the use of current financial resources and
therefore are not reported as expenditures in the governmental funds.
in governmental funds.

Pension Contributions	1,131	
Compensated Absences	<u>(67,430)</u>	
 Total		 (66,299)

The internal service fund used by management to charge the costs of
health insurance is included in the statement of activities and not on the
governmental fund expenditures. This is the amount that expenses exceeded
revenues during the year.

158,183

Changes in Net Assets of Governmental Activities \$37,054

Tri-County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget Over/(Under)</i>
	<i>Original</i>	<i>Final</i>		
Revenues				
Intergovernmental	\$5,056,118	\$5,193,268	\$5,109,863	(\$83,405)
Interest	45,000	45,000	32,690	(12,310)
Tuition and Fees	245,900	248,900	242,194	(6,706)
Gifts and Donations	1,425	1,425	124,275	122,850
Customers Sales and Services	5,024,675	5,027,875	4,776,712	(251,163)
Miscellaneous	40,000	40,000	40,074	74
<i>Total Revenues</i>	<u>10,413,118</u>	<u>10,556,468</u>	<u>10,325,808</u>	<u>(230,660)</u>
Expenditures				
Current:				
Instruction:				
Regular	316,759	324,024	321,987	2,037
Special	563,017	556,840	492,847	63,993
Adult/Continuing	130,964	133,964	90,403	43,561
Support Services:				
Pupils	2,189,252	2,182,553	2,011,032	171,521
Instructional Staff	5,170,926	5,665,826	4,158,882	1,506,944
Board of Education	42,534	50,034	43,413	6,621
Administration	602,481	607,481	570,737	36,744
Fiscal	363,121	363,121	270,975	92,146
Business	223,506	205,006	189,437	15,569
Operation and Maintenance of Plant	340,050	210,050	153,666	56,384
Central	1,156	27,106	24,230	2,876
Operation of Non-Instructional Services	2,436,283	2,385,083	2,282,601	102,482
Capital Outlay	200,000	200,000	0	200,000
<i>Total Expenditures</i>	<u>12,580,049</u>	<u>12,911,088</u>	<u>10,610,210</u>	<u>2,300,878</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,166,931)</u>	<u>(2,354,620)</u>	<u>(284,402)</u>	<u>2,070,218</u>
<i>Other Financing Sources and Uses</i>				
Transfers In	160,000	160,000	0	(160,000)
Advances In	15,000	15,000	50,000	35,000
Transfers Out	(101,500)	(411,500)	(1,500)	410,000
Advances Out	(20,000)	(20,000)	0	20,000
<i>Total Other Financing Sources and Uses</i>	<u>53,500</u>	<u>(256,500)</u>	<u>48,500</u>	<u>305,000</u>
<i>Net Change in Fund Balances</i>	<u>(2,113,431)</u>	<u>(2,611,120)</u>	<u>(235,902)</u>	<u>2,375,218</u>
<i>Fund Balance Beginning of Year</i>	2,216,469	2,216,469	2,216,469	0
Prior Year Encumbrances Appropriated	394,657	394,657	394,657	0
<i>Fund Balance End of Year</i>	<u>\$497,695</u>	<u>\$6</u>	<u>\$2,375,224</u>	<u>\$2,375,218</u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
SERRC - Title VI-B Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over/(Under)
	Original	Final		
Revenues				
Intergovernmental	\$1,278,853	\$1,303,564	\$1,248,044	(\$55,520)
<i>Total Revenues</i>	<u>1,278,853</u>	<u>1,303,564</u>	<u>1,248,044</u>	<u>(55,520)</u>
Expenditures				
Current:				
Support Services:				
Pupils	34,546	41,402	35,800	5,602
Instructional Staff	882,401	912,477	822,494	89,983
Administration	531,605	494,286	383,509	110,777
Fiscal	41,640	41,640	41,640	0
Operation and Maintenance of Plant	69,105	69,496	67,919	1,577
<i>Total Expenditures</i>	<u>1,559,297</u>	<u>1,559,301</u>	<u>1,351,362</u>	<u>207,939</u>
<i>Excess of Revenues Under Expenditures</i>	(280,444)	(255,737)	(103,318)	152,419
<i>Fund Balance Beginning of Year</i>	153,125	153,125	153,125	0
Prior Year Encumbrances Appropriated	<u>102,608</u>	<u>102,608</u>	<u>102,608</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>(\$24,711)</u>	<u>(\$4)</u>	<u>\$152,415</u>	<u>\$152,419</u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center

Wayne County

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

	<u>Self-Insurance Fund</u>
<i>Assets</i>	
Cash and Cash Equivalents with Fiscal Agent	<u>\$182,376</u>
<i>Total Assets</i>	<u>182,376</u>
<i>Liabilities</i>	
Claims Payable	<u>68,000</u>
<i>Total Liabilities</i>	<u>68,000</u>
<i>Net Assets</i>	
Unrestricted	<u>114,376</u>
<i>Total Net Assets</i>	<u><u>\$114,376</u></u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center
Wayne County

Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	<u>Self-Insurance Fund</u>
<i>Operating Revenues</i>	
Charges for Services	\$1,307,323
Other	<u>58,443</u>
<i>Total Operating Revenues</i>	<u>1,365,766</u>
<i>Operating Expenses</i>	
Purchased Services	468,922
Claims	<u>739,448</u>
<i>Total Operating Expenses</i>	<u>1,208,370</u>
<i>Operating Income</i>	<u>157,396</u>
<i>Non-Operating Revenues</i>	
Interest	<u>787</u>
<i>Total Non-Operating Revenues</i>	<u>787</u>
<i>Net Income</i>	158,183
<i>Net Assets (Deficit) at Beginning of Year</i>	<u>(43,807)</u>
<i>Net Assets at End of Year</i>	<u><u>\$114,376</u></u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center
Wayne County
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	<u>Self-Insurance Fund</u>
<i>INCREASE IN CASH AND CASH EQUIVALENTS</i>	
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers	\$1,307,323
Cash Received from Other Operating Sources	58,443
Cash Payments to Suppliers for Goods and Services	(468,922)
Cash Payments for Claims	<u>(739,899)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>156,945</u>
<i>Cash Flows from Investing Activities</i>	
Interest on Investments	<u>787</u>
<i>Net Cash Provided by Investing Activities</i>	<u>787</u>
<i>Net Increase in Cash and Cash Equivalents</i>	157,732
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>24,644</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$182,376</u></u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>	
<i>Operating Income</i>	<u>157,396</u>
<i>Adjustments:</i>	
Changes in Liabilities:	
Decrease in Claims Payable	<u>(451)</u>
<i>Total Adjustments</i>	<u>(451)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$156,945</u></u>

See Accompanying Notes to the Basic Financial Statements

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the Educational Service Center

The Tri-County Educational Service Center (Educational Service Center) 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 Educational Service Center is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The Educational Service Center 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 Educational Service Center's instructional support services staffed by 97 noncertificated and 108 certificated teaching personnel who provide services to 29,821 students.

Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or if the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center is associated with certain organizations which are defined as Jointly Governed Organizations and Public Entity Risk Pools. The Educational Service Center is also fiscal agent for the Lincoln Way Special Education Regional Resource Center. These organizations are presented in Notes 9, 10 and 11 to the basic financial statements. These organizations include the Midland Council of Governments Tri-County Computer Service Association, the Ohio School Boards Associations Workers' Compensation Group Rating Program, the Ohio Mid-Eastern Regional Education Service Agency, the Schools of Ohio Risk Sharing Authority and the Lincoln Way Special Education Regional Resource Center.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its governmental activities and proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. Explanation of the Educational Service Center's more significant policies follow.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government.

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

Fund Financial Statements During the year, the Educational Service Center segregates transactions related to certain Educational Service Center 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 Educational Service Center at this more detailed level. The focus of governmental statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

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

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

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

General Fund The general fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

SERRC – Title VI-B Special Revenue Fund The SERRC – Title VI-B fund accounts for intergovernmental revenues that are used to offer special education services to local districts.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

Tri-County Educational Service Center
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

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

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

Tri-County Educational Service Center
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

E. Budgetary Data

The Educational Service Center 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 Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center 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 Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The Educational Service Center is self insured through the Ohio Mid-Eastern Regional Education Service Agency (OMERESA) claims servicing pool. OMERESA is fiscal agent for the pool and the portion of the cash balance held by OMERESA and attributable to the Educational Service Center is presented as "Cash and Cash Equivalents with Fiscal Agent" on the financial statements.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

The Educational Service Center invested funds in the State Treasury Asset Reserve (“STAR Ohio”) during fiscal year 2004. 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, 2004.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2004, the general fund received interest earned in the amount of \$33,849 which includes \$5,830 assigned from other District funds.

For presentation on the financial statements, 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 Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District increased its capitalization threshold from \$250 to \$1,000. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Buildings Improvements	20 - 75 years
Furniture and Fixtures	7 - 15 years

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

H. Compensated Absences

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

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Assets

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

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

K. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Educational Service Center, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds.

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

O. Estimates

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

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

A. Changes in Accounting Principles

For fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2004, there was no effect on fund balance as a result of implementing GASB statement 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)*

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (continued)

A. Changes in Accounting Principles (continued)

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting and change in the capital asset threshold from \$500 to \$1,000.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Balance

The new standards for reporting fund obligations for compensated absences in Interpretation 6 caused changes in previously reported fund balances. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>SERRC Title VI-B</u>	<u>Nonmajor</u>	<u>Total</u>
<i>Fund Balance June 30, 2003</i>	\$2,569,260	\$358,992	\$96,468	\$3,024,720
GASB 6 Compensated Absences	13,244	4,519	0	17,763
<i>Restated Fund Balances, June 30, 2003</i>	<u>\$2,582,504</u>	<u>\$363,511</u>	<u>\$96,468</u>	3,042,483
<i>GASB 34 Adjustments:</i>				
Capital Assets				755,985
Long-Term Liabilities:				
Pension Obligations				(34,693)
Compensated Absences				(344,157)
Internal Service Fund				<u>(43,807)</u>
<i>Governmental Activities Net Assets, June 30, 2003</i>				<u>\$3,375,811</u>

Note 4 – Fund Deficits

The following funds had deficit fund balances at June 30, 2004:

<u>Fund</u>	<u>Amount</u>
Special Revenue Funds:	
Public School Preschool	\$561
Alternative School	6,558
Handicapped Preschool	3,500

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)*

Note 5 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided for control purposes and not required by statute is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), General Fund and SERRC Title VI-B major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements on a fund type basis for the general fund and major special revenue fund.

Net Change in Fund Balance

	<i>General</i>	<i>SERRC – Title VI-B</i>
<i>GAAP Basis</i>	\$45,786	(\$156,068)
Net Adjustment for Revenue Accruals	30,056	112,958
Advances In	50,000	0
Net Adjustment for Expenditure Accruals	79,480	17,619
Adjustment for Encumbrances	(441,224)	(77,827)
<i>Budget Basis</i>	(\$235,902)	(\$103,318)

Note 6 - Deposits and Investments

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 6 - Deposits and Investments (continued)

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations 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 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 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 Treasury Asset Reserve of Ohio; (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 6 - Deposits and Investments (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, 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 upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$1,268,600 and the bank balance was \$1,482,772. Of the bank balance, \$398,000 was covered by federal depository insurance and \$1,084,772 was covered by collateral held in the pledging bank's trust department in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of custodial credit risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center invests in STAR Ohio which is not classified by degree of custodial credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the

STAR Ohio investment at June 30, 2004 was \$1,941,089. The Educational Service Center also maintains repurchase agreements, which are a category 3 investment.

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)*

Note 6 - Deposits and Investments (continued)

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$3,454,689	\$0
Investments which are part of the cash management pool:		
STAR Ohio	(1,941,089)	1,941,089
Repurchase Agreements	(245,000)	245,000
<i>GASB Statement No. 3</i>	\$1,268,600	\$2,186,089

Note 7 - Receivables

Receivables at June 30, 2004, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Intergovernmental	\$457,698
Customer Services	428,555
<i>Total General Fund</i>	886,253
<i>Special Revenue Funds:</i>	
Other Grants	11,316
SERCC - Title VI-B	55,520
<i>Total Special Revenue Funds</i>	66,836
<i>Total Intergovernmental Receivables</i>	\$953,089

Note 8 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$47.02 for each of the 29,821 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 9 - Jointly Governed Organizations

The Midland Council of Governments Tri-County Computer Services Association (Midland) is a jointly governed organization which operates under the direction of a Board consisting of one representative from each of the participating Educational Service Centers' elected school boards. It has its own budgeting and taxing authority. 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 among member districts. Each of the governments of these schools supports SPARCC based on a per pupil charge. To obtain financial information, write to the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

Note 10 - Public Entity Risk Pools

A. Insurance Purchasing Pool

The Educational Service Center participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan's business affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan.

The Educational Service Center 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 Educational Service Center's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a non-profit corporation under provisions of Ohio Revised Code 2744.

B. Claims Servicing Pool

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

Note 11 - Fiscal Agent

The Educational Service Center is fiscal agent for the Lincoln Way Special Education Service Center (SERRC). The SERRC was created by the Ohio Department of Education to serve school districts in Stark, Wayne, and Columbiana Counties. The SERRC was formed to assist local schools with the initiation and expansion of programs and services for handicapped children through joint planning and cooperation, as well as, to provide resources designed to improve the quality of instruction for handicapped children through teacher training. The activity of the SERRC is accounted for in the Educational Service Center's Title VIB, Preschool and Early Childhood Development Special Revenue Funds.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 12 - Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in the Educational Service Center's capital asset policy:

	<i>Balance at</i> <u>6/30/03</u>	<i>Adjustments</i>	<i>Restated</i> <i>Balance at</i> <u>6/30/03</u>
<i>Governmental Activities:</i>			
<i>Capital Assets, not being depreciated:</i>			
Land	\$77,981	\$0	\$77,981
<i>Total Capital Assets, not being depreciated</i>	<u>77,981</u>	<u>0</u>	<u>77,981</u>
<i>Capital Assets, being depreciated:</i>			
Buildings and Buildings Improvements	361,865	0	361,865
Furniture and Fixtures	1,223,752	(549,653)	674,099
<i>Total Capital Assets, being depreciated</i>	<u>1,585,617</u>	<u>(549,653)</u>	<u>1,035,964</u>
<i>Less Accumulated Depreciation:</i>			
Buildings and Building Improvements	0	(18,605)	(18,605)
Furniture and Fixtures	0	(339,355)	(339,355)
<i>Total Accumulated Depreciation</i>	<u>0</u>	<u>(357,960)</u>	<u>(357,960)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$1,663,598</u>	<u>\$(907,613)</u>	<u>\$755,985</u>

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<i>Restated</i> <i>Balance at</i> <u>6/30/03</u>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i> <u>6/30/04</u>
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$77,981	\$0	\$0	\$77,981
<i>Total Capital Assets, not being depreciated</i>	<u>77,981</u>	<u>0</u>	<u>0</u>	<u>77,981</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Buildings Improvements	361,865	14,236	0	376,101
Furniture and Fixtures	674,099	58,153	0	732,252
<i>Total Capital Assets, being depreciated</i>	<u>1,035,964</u>	<u>72,389</u>	<u>0</u>	<u>1,108,353</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Building Improvements	(18,605)	(12,913)	0	(31,518)
Furniture and Fixtures	(339,355)	(71,067)	0	(410,422)
<i>Total Accumulated Depreciation</i>	<u>(357,960)</u>	<u>(83,980)</u>	<u>0</u>	<u>(441,940)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$755,985</u>	<u>\$(11,591)</u>	<u>\$0</u>	<u>\$744,394</u>

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 12 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$1,415	
Support Services:		
Pupil	6,001	
Instructional Staff	46,861	
Administration	10,310	
Fiscal	1,020	
Business	781	
Operation and Maintenance of Plant	13,497	
Operation of Non-Instructional Services	4,095	
Total Depreciation Expense		\$83,980

There was no significant construction in progress at June 30, 2004.

Note 13 - Risk Management

The Educational Service Center 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 2004, the Educational Service Center contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance.

General liability coverage is \$3,000,000 annual aggregate/\$1,000,000 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.

For fiscal year 2004, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 10). The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health and dental insurances are available to most employees through a self-insurance internal service fund. The claims liability of \$68,000 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years were as follows:

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2003	\$79,086	\$1,085,268	\$1,095,903	\$68,451
2004	68,451	739,448	739,899	68,000

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 14 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 2004, 9.09 percent was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for pension obligations for the years ended June 30, 2004, 2003, and 2002 were \$151,216, \$127,760, and \$79,534, respectively, equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Tri-County Educational Service Center
Wayne County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 14 - Defined Benefit Pension Plan (continued)

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.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for pension obligations for the years ended June 30, 2004, 2003, and 2002 were \$696,936, \$615,147, and \$373,791, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2003, two of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

Note 15 - Post Employment Benefits

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fee, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$49,781 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)*

Note 15 - Post Employment Benefits (continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$115,242, during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 (the latest information available), SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Note 16 - Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn 10 to 20 days of vacation per year, depending upon length of service and number of days worked per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

B. *Life Insurance*

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to all employees through Medical Life, Inc.; coverage amount is \$38,000 per employee.

Note 17 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2004, are as follows:

	<i>Principal Outstanding July 1, 2003</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 2004</i>	<i>Due Within One Year</i>
Compensated Absences	\$344,157	\$67,430	\$0	\$411,587	\$260,859
<i>Total Long-Term Obligations</i>	<u>\$344,157</u>	<u>\$67,430</u>	<u>\$0</u>	<u>\$411,587</u>	<u>\$260,859</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Tri-County Educational Service Center
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004 (continued)

Note 18 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 Educational Service Center at June 30, 2004.

B. Litigation

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

Note 19 - School Funding Issue

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY NUMBER	RECEIPTS	EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	C1A1-2003		\$45,391
Special Education Cluster:				
Special Education - Grants to States	84.027	6BII-2003-P 6BSD-2003-P 6BSD-2004-P 6BSI-2003-P 6BSI-2004-P	\$66,893 19,632 24,711 101,585 1,054,855	92,122 19,632 21,321 312,457 827,998
Total Special Education - Grants to States			<u>1,248,044</u>	<u>1,273,530</u>
Special Education - Preschool Grants	84.173	PGS1-2004	<u>143,392</u>	<u>143,392</u>
Total Special Education Cluster			1,391,436	1,416,922
Safe and Drug Free Schools and Communities National Program	84.184	T4S1-2004-P T4S1-2004	7,269 6,207	7,269 6,207
Total Safe and Drug Free Schools and Communities National Program			<u>13,476</u>	<u>13,476</u>
Comprehensive School Reform Demonstration	84.332			7,300
English Language Acquisition Grant	84.365	T3S1-2003 T3S1-2004	15,346	3,337 10,138
Total English Language Acquisition Grant			<u>15,346</u>	<u>13,475</u>
<i>Passed through the Ohio Schools Facility Commission</i>				
School Renovation Grants	84.352	N/A	<u>32,912</u>	<u>33,000</u>
Total U.S. Department of Education			1,453,170	1,529,564
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	<u>802,659</u>	<u>802,659</u>
Total			<u><u>\$2,255,829</u></u>	<u><u>\$2,332,223</u></u>

See Accompanying Notes to the Schedule of Receipts and Expenditures of Federal Awards.

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

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

The Educational Service Center passes-through certain Federal assistance received from the Ohio Department of Mental Retardation and Developmental Disabilities to other governments or not-for-profit agencies (subrecipients). As described in Note A, the Educational Service Center records expenditures of Federal awards to subrecipients when paid in cash.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2004, in which we noted the Educational Service Center adopted Governmental Accounting Standards Board Statement No. 34. In addition, the Educational Service Center increased its capitalization threshold for capital assets from \$250 to \$1,000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

However, we noted an immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated December 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated December 3, 2004.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

December 3, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Compliance

We have audited the compliance of the Tri-County Educational Service Center, Wayne County, Ohio, (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-001.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



Betty Montgomery
Auditor of State

December 3, 2004

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2004-001

Federal Questioned Costs

Finding Number	2004-001
CFDA Title	Special Education Cluster: Special Education – Grants to States & Special Education – Preschool Grants
CFDA Number	84.027 & 84.173
Pass Through Entity Number	6BSI-2003-P
Federal Oversight Agency	U.S. Department of Education

34 CFR Section 76.707 states that an obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for. The following table show when a State or a subgrantee makes obligations for various kinds of property and services.

IF AN OBLIGATION IS FOR --

THE OBLIGATION IS MADE --

- | | |
|---|--|
| (a) Acquisition of real or personal property. | On the date on which the State of subgrantee makes a binding written commitment to acquire the property. |
| (b) Personal services by an employee of the State or subgrantee. | When the services are performed. |
| (c) Personal services by a contractor who is not an employee of the State or subgrantee. | On the date on which the State or subgrantee makes a binding written commitment to obtain the services. |
| (d) Performance of work other than personal services. | On the date on which the State or subgrantee makes a binding written commitment to obtain the work. |
| (e) Public utility services. | When the State or subgrantee receives the services. |
| (f) Travel. | When the travel is taken. |
| (g) Rental of real or personal property. | When the State or subgrantee uses the property. |
| (h) A preagreement cost that was properly approved by the State under the cost principles identified in 34 CFR 74.171 and 80.22 | |

FINDING NUMBER 2004-001
(Continued)

OMB Circular A-87, Attachment A, Subpart C1a also requires that in order for costs to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal Awards.

The Educational Service Center made a \$5,000 advance payment to UPS and a \$2,000 advance payment to the United States Postal Service for fiscal year 2004 shipping and postage costs from the Fiscal Year 2003 IDEA-B Grant. These pre-payments were made near the end of the period of availability and did not pertain to fiscal year 2003 obligations. In addition, UPS and the United States Postal Service do not require advance payments for these services. It was also noted that these payments were significantly in excess of normal monthly shipping and postage costs. As a result, these pre-payments were determined to not be necessary and reasonable for proper and efficient performance and administration of Federal Awards. This resulted in actual questioned costs of \$7,000 and projected questioned costs of \$18,905 out of \$323,059 expenditures tested. As a result, IDEA-B Grant funds may not be proper.

To help ensure IDEA-B Grant monies are utilized during the Period of Availability and are deemed necessary and reasonable, the Director and Treasurer should review the above list as well as OMB Circular A-87 to determine what is proper in accordance with the Grant Agreement.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 1, 2005**