



**Auditor of State
Betty Montgomery**

**TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER
TUSCARAWAS 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	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	19
Statement of Fiduciary Net Assets Agency Funds	20
Notes to the Basic Financial Statements	21
Federal Awards Receipts and Expenditures Schedule.....	45
Notes to the Federal Awards of Receipts and Expenditures Schedule	46
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	47
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	49
Schedule of Findings.....	51

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tuscarawas-Carroll-Harrison Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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, the major fund, and the aggregate remaining fund information of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund 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 Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2005 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule 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

April 30, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Tuscarawas-Carroll-Harrison Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$21,427 which represents a 2.84% increase from 2003.
- General revenues accounted for \$1,490,803 in revenue or 27.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,972,665 or 72.71% of total revenues of \$5,463,468.
- The ESC had \$5,442,041 in expenses related to governmental activities; \$3,972,665 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,490,803 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$5,248,050 in revenues and other financing sources and \$5,295,845 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$47,795 from \$297,831 to \$250,036.

Using these Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the ESC's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-43 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities 2004
<u>Assets</u>	
Current and other assets	\$ 933,820
Capital assets	1,671,559
Total assets	2,605,379
<u>Liabilities</u>	
Current liabilities	649,366
Long-term liabilities	1,178,815
Total liabilities	1,828,181
<u>Net Assets</u>	
Invested in capital assets, net of related debt	681,065
Restricted	45,286
Unrestricted	50,847
Total net assets	\$ 777,198

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$777,198. Of this total, \$50,847 is unrestricted in use.

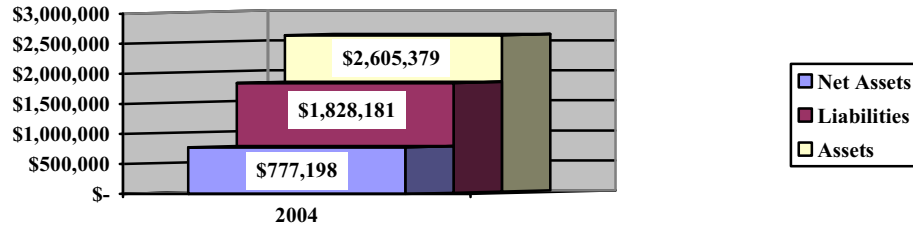
At year-end, capital assets represented 64.16% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$681,065. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$45,286, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$50,847 may be used to meet the ESC's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the ESC has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 3,730,064
Operating grants and contributions	242,601
General revenues:	
Grants and entitlements	1,480,335
Investment earnings	10,468
Total revenues	5,463,468

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 272,943
Special	807,349
Other	3,600
Support services:	
Pupil	1,751,407
Instructional staff	1,520,748
Board of education	26,222
Administration	407,927
Fiscal	172,055
Business	182,482
Operations and maintenance	86,262
Central	140,495
Operations of non-instructional services	17,104
Interest and fiscal charges	<u>53,447</u>
Total expenses	<u>5,442,041</u>
Change in net assets	<u><u>\$ 21,427</u></u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$21,427. Total governmental expenses of \$5,442,041 were offset by program revenues of \$3,972,665 and general revenues of \$1,490,803. Program revenues supported 73.00% of the total governmental expenses.

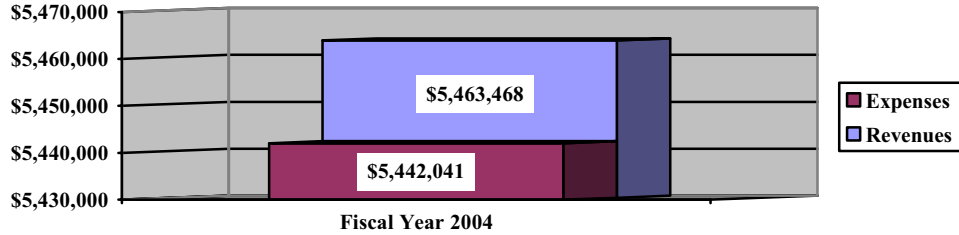
The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 68.27% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

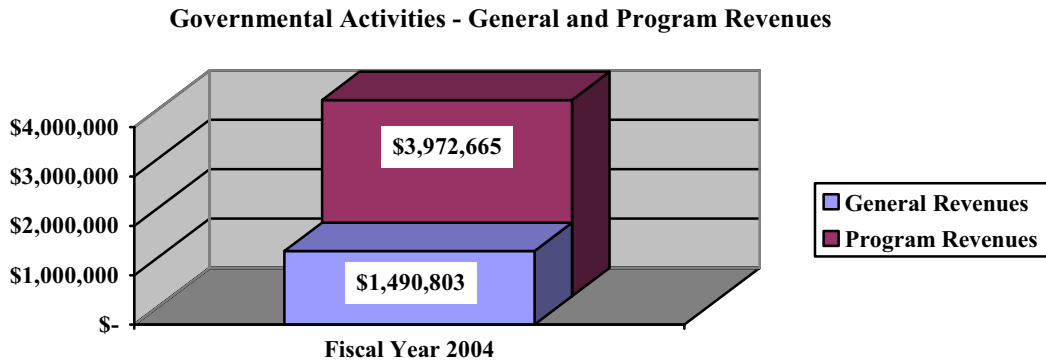
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 272,943	\$ 201,599
Special	807,349	52,275
Other	3,600	-
Support services:		
Pupil	1,751,407	229,316
Instructional staff	1,520,748	227,896
Board of education	26,222	26,222
Administration	407,927	100,975
Fiscal	172,055	171,407
Business	182,482	182,482
Operations and maintenance	86,262	86,262
Central	140,495	137,495
Operations of non-instructional services	17,104	-
Interest and fiscal charges	53,447	53,447
Total expenses	\$ 5,442,041	\$ 1,469,376

The dependence upon other general revenues for governmental activities is apparent, 23.42% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 27.00%. The ESC's charges for services, as a whole, are by far the primary support for ESC's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$295,322, which is lower than last year's total of \$363,906. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	(Decrease)	Percentage Change
General	\$ 250,036	\$ 297,831	\$ (47,795)	(16.05) %
Other Governmental	45,286	66,075	(20,789)	(31.46) %
Total	<u>\$ 295,322</u>	<u>\$ 363,906</u>	<u>\$ (68,584)</u>	(18.85) %

General Fund

The ESC's general fund balance decreased by \$47,795 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to slightly increasing revenues still being lower than slightly decreased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$74,978. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 33,119	\$ 24,562	\$ 8,557	34.84 %
Earnings on investments	10,468	23,438	(12,970)	(55.34) %
Charges for services	3,696,945	3,278,265	418,680	12.77 %
Intergovernmental	<u>1,480,335</u>	<u>1,492,330</u>	<u>(11,995)</u>	(0.80) %
 Total	 <u>\$ 5,220,867</u>	 <u>\$ 4,818,595</u>	 <u>\$ 402,272</u>	 8.35 %
<u>Expenditures</u>				
Instruction	\$ 974,431	\$ 886,685	\$ 87,746	9.90 %
Support services	4,064,654	4,052,641	12,013	0.30 %
Facilities acquisition and construction	-	185,106	(185,106)	(100.00) %
Capital outlay	27,183	-	27,183	100.00 %
Debt service	<u>229,577</u>	<u>220,550</u>	<u>9,027</u>	4.09 %
 Total	 <u>\$ 5,295,845</u>	 <u>\$ 5,344,982</u>	 <u>\$ (49,137)</u>	 (0.92) %

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,921,726 and final budgeted revenues and other financing sources were \$5,460,093. Actual revenues and other financing sources for fiscal 2004 was \$5,460,093 which equals final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,972,863 were increased to \$5,381,403 in the final budget. The actual budget basis expenditures for fiscal year 2004 totaled \$5,381,403, which equals the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the ESC had \$1,671,559 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 22,360	\$ 22,360
Land improvements	73,573	78,320
Building and improvements	1,425,803	1,476,553
Furniture and equipment	127,323	140,448
Vehicles	22,500	-
	\$ 1,671,559	\$ 1,717,681

The overall decrease in capital assets of \$46,122 is due to depreciation expense of \$80,666 exceeding capital outlays of \$34,544 in the fiscal year.

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

Debt Administration

At June 30, 2004, the ESC had \$19,345 in loans and \$971,149 in capital lease obligations outstanding. Of this total, \$185,408 is due within one year and \$805,086 is due within greater than one year. The following table summarizes the loans and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2004	2003
Loan payable	\$ 19,345	\$ -
Capital lease obligation	971,149	1,139,441
	\$ 990,494	\$ 1,139,441

See Note 10 to the basic financial statements for additional information on the ESC's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

Overall, the Tuscarawas-Carroll-Harrison ESC is financially strong. As the preceding information shows the ESC relies heavily on contracts with local, city, exempted village school districts and other entities within the three county area, state foundation revenue, customer service receipts and grants. Discretionary contracts with districts are expected to decrease in fiscal year 2005 due to the financial difficulties that districts are facing. However, we anticipate an increase in contracts for required special education services. District contracts, along with the ESC's cash balance will provide the necessary funds to meet its operating expenses in fiscal year 2005.

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

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

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Julie A. Lynch, Treasurer, Tuscarawas-Carroll-Harrison Educational Service Center, 834 E. High Street, New Philadelphia, Ohio 44663.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 835,231
Receivables:	
Accounts	98,589
Capital assets:	
Land	22,360
Depreciable capital assets, net	1,649,199
Capital assets, net.	1,671,559
 Total assets.	 2,605,379
 Liabilities:	
Accounts payable.	73
Accrued wages and benefits	548,779
Pension obligation payable.	87,489
Intergovernmental payable	13,025
Long-term liabilities:	
Due within one year.	229,025
Due within more than one year	949,790
Total liabilities	1,828,181
 Net Assets:	
Invested in capital assets, net of related debt.	681,065
Restricted for:	
Other purposes	45,286
Unrestricted.	50,847
Total net assets	\$ 777,198

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 272,943	\$ -	\$ 71,344	(\$201,599)
Special	807,349	698,414	56,660	(52,275)
Other	3,600	-	3,600	-
Support services:				
Pupil	1,751,407	1,522,091	-	(229,316)
Instructional staff	1,520,748	1,202,607	90,245	(227,896)
Board of education	26,222	-	-	(26,222)
Administration	407,927	306,952	-	(100,975)
Fiscal	172,055	-	648	(171,407)
Business	182,482	-	-	(182,482)
Operations and maintenance	86,262	-	-	(86,262)
Central	140,495	-	3,000	(137,495)
Other non-instructional services	17,104	-	17,104	-
Interest and fiscal charges	53,447	-	-	(53,447)
Total governmental activities	\$ 5,442,041	\$ 3,730,064	\$ 242,601	(1,469,376)

General Revenues:

Grants and entitlements not restricted to specific programs.	1,480,335
Investment earnings	10,468
Total general revenues.	1,490,803
Change in net assets	21,427
Net assets at beginning of year (restated)	755,771
Net assets at end of year	\$ 777,198

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 789,945	\$ 45,286	\$ 835,231
Receivables:			
Accounts	98,589	-	98,589
Total assets	\$ 888,534	\$ 45,286	\$ 933,820
Liabilities:			
Accounts payable	\$ 73	\$ -	\$ 73
Accrued wages and benefits	548,779	-	548,779
Intergovernmental payable.	13,025	-	13,025
Pension obligation payable.	76,621	-	76,621
Total liabilities	638,498	-	638,498
Fund Balances:			
Reserved for encumbrances	-	293	293
Unreserved, undesignated, reported in:			
General fund	250,036	-	250,036
Special revenue funds.	-	44,993	44,993
Total fund balances	250,036	45,286	295,322
Total liabilities and fund balances	\$ 888,534	\$ 45,286	\$ 933,820

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances	\$	295,322
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,671,559
Long-term liabilities, are not due and payable in the current period therefore are not reported in the funds		
Compensated absences	(188,321)	
Pension obligation payable	(10,868)	
Capital lease obligation	(971,149)	
Note payable	<u>(19,345)</u>	
Total		<u>(1,189,683)</u>
Net assets of governmental activities	\$	<u>777,198</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 33,119	\$ -	\$ 33,119
Earnings on investments	10,468	-	10,468
Customer service revenue	3,696,945	-	3,696,945
Intergovernmental - State	1,372,231	168,837	1,541,068
Intergovernmental - Federal	108,104	73,764	181,868
Total revenue	<u>5,220,867</u>	<u>242,601</u>	<u>5,463,468</u>
Expenditures:			
Current:			
Instruction:			
Regular	210,887	71,344	282,231
Special	763,544	22,081	785,625
Other	-	3,600	3,600
Support services:			
Pupil	1,746,870	3,260	1,750,130
Instructional staff	1,380,205	128,053	1,508,258
Board of education	26,147	-	26,147
Administration	352,282	-	352,282
Fiscal	168,383	648	169,031
Business	182,132	-	182,132
Operations and maintenance	71,229	14,300	85,529
Central	137,406	3,000	140,406
Other non-instructional services	-	17,104	17,104
Capital outlay	27,183	-	27,183
Debt service:			
Principal retirement	176,130	-	176,130
Interest and fiscal charges	53,447	-	53,447
Total expenditures	<u>5,295,845</u>	<u>263,390</u>	<u>5,559,235</u>
Excess of revenues under expenditures	<u>(74,978)</u>	<u>(20,789)</u>	<u>(95,767)</u>
Other financing sources:			
Proceeds from loans	27,183	-	27,183
Total other financing sources	<u>27,183</u>	<u>-</u>	<u>27,183</u>
Net change in fund balances	(47,795)	(20,789)	(68,584)
Fund balances at beginning of year (restated)			
	297,831	66,075	363,906
Fund balances at end of year	<u>\$ 250,036</u>	<u>\$ 45,286</u>	<u>\$ 295,322</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(68,584)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$80,666) exceeds capital outlays (\$34,544) in the current period.		(46,122)
Repayment of lease and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		176,130
Proceeds of notes are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(27,183)
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 governmental funds.		<u>(12,814)</u>
Change in net assets of governmental activities	\$	<u>21,427</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 29,853	\$ 33,119	\$ 33,119	\$ -
Earnings on investments	9,436	10,468	10,468	-
Customer services	3,417,589	3,791,425	3,791,425	-
Intergovernmental - State	1,236,929	1,372,231	1,372,231	-
Intergovernmental - Federal	97,445	108,104	108,104	-
Total revenue	<u>4,791,252</u>	<u>5,315,347</u>	<u>5,315,347</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	194,272	210,232	210,232	-
Special	710,289	768,642	768,642	-
Support services:				
Pupil	1,604,187	1,735,977	1,735,977	-
Instructional staff	1,257,571	1,360,885	1,360,885	-
Board of education	24,183	26,170	26,170	-
Administration	329,823	356,919	356,919	-
Fiscal	155,070	167,810	167,810	-
Business	167,268	181,010	181,010	-
Operations and maintenance	65,420	70,794	70,794	-
Central	127,216	137,667	137,667	-
Debt service:				
Principal retirement	154,509	167,203	167,203	-
Interest and fiscal charges	49,298	53,348	53,348	-
Total expenditures	<u>4,839,106</u>	<u>5,236,657</u>	<u>5,236,657</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(47,854)</u>	<u>78,690</u>	<u>78,690</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	130,474	144,746	144,746	-
Transfers (out)	(133,757)	(144,746)	(144,746)	-
Total other financing sources (uses)	<u>(3,283)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(51,137)	78,690	78,690	-
Fund balance at beginning of year (restated) .	<u>706,255</u>	<u>706,255</u>	<u>706,255</u>	<u>-</u>
Fund balance at end of year	<u>\$ 655,118</u>	<u>\$ 784,945</u>	<u>\$ 784,945</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 162,110
Receivables:	
Intergovernmental	252,694
Total assets.	\$ 414,804
Liabilities:	
Accounts payable.	\$ 1,059
Accrued wages and benefits	4,547
Pension obligation payable	635
Intergovernmental payable	137,981
Due to students	270,582
Total liabilities	\$ 414,804

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The ESC operates under an elected five-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 64 non-certificated employees and 87 certificated employees to provide services to approximately 13,077 students in 12 districts throughout Tuscarawas, Carroll and Harrison counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

JOINTLY GOVERNED ORGANIZATION

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

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

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

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

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

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

RISK SHARING POOL

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

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

Each entity decides which plans offered by the Trustees will be extended to its employees. The ESC participates in the health care benefits only. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from CoreSource, Inc., 229 Huber Village Blvd., Westerville, Ohio 43081.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

PROPRIETARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

E. Budgets

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

Estimated Resources:

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

Appropriations:

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

Encumbrances:

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

Lapsing of Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

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 all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$10,468, which includes \$2,862 assigned from other funds.

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

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

G. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

H. Interfund Balances

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

The ESC had no short-term interfund loans receivable or payable at June 30, 2004.

I. Compensated Absences

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

K. Fund Balance Reserves

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

L. Net Assets

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

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

M. Estimates

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. The ESC made no interfund transfers during fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the ESC has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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 Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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.

The government-wide financial statements show the ESC's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the ESC's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 332,913	\$ 199,861	\$ 532,774
Fund reclassifications	(43,311)	(133,786)	(177,097)
Implementation of GASB Interpretation No. 6	8,229	-	8,229
Restated fund balance, June 30, 2003	\$ 297,831	\$ 66,075	\$ 363,906

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 363,906
GASB 34 adjustments:	
Capital assets	1,717,681
Pension obligation	(12,988)
Long-term liabilities	(1,312,828)
Governmental activities net assets, June 30, 2003	\$ 755,771

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$749,566 to \$706,255 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the ESC into three categories.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State 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 the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements”.

Deposits: At year-end, the carrying amount of the ESC’s deposits was \$501,443 and the bank balance was \$776,305. Of the bank balance:

1. \$100,000 was covered by federal depository insurance deposited with the ESC; and
2. \$676,305 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The ESC’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the ESC’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC’s name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Reported Amount</u>	<u>Fair Value</u>
Investment in STAR Ohio	\$ 495,898	\$ 495,898
Total investments	<u>\$ 495,898</u>	<u>\$ 495,898</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 997,341	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	<u>(495,898)</u>	<u>495,898</u>
GASB Statement No. 3	<u>\$ 501,443</u>	<u>\$ 495,898</u>

NOTE 5 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the ESC receives \$47.02 for each of the 13,077 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the ESC's supervision) is apportioned by the State Board of Education among the local school districts to which the ESC provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts (billings for user charged services and student fees). All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Accounts	\$ <u>98,589</u>
Total	<u>\$ 98,589</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions reported in prior years and to depreciate capital assets in accordance with GASB Statement No. 34.

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 22,360	\$ -	\$ 22,360
Total capital assets, not being depreciated	<u>22,360</u>	<u>-</u>	<u>22,360</u>
Capital assets, being depreciated:			
Land improvements	136,247	(41,314)	94,933
Buildings and improvements	1,614,101	-	1,614,101
Furniture and equipment	<u>268,494</u>	<u>(42,244)</u>	<u>226,250</u>
Total capital assets, being depreciated	<u>2,018,842</u>	<u>(83,558)</u>	<u>1,935,284</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(239,963)</u>	<u>(239,963)</u>
Governmental activities capital assets, net	<u>\$ 2,041,202</u>	<u>\$ (323,521)</u>	<u>\$ 1,717,681</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,360	\$ -	\$ -	\$ 22,360
Total capital assets, not being depreciated	<u>22,360</u>	<u>-</u>	<u>-</u>	<u>22,360</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	94,933	-	-	94,933
Buildings and improvements	1,614,101	-	-	1,614,101
Furniture and equipment	226,250	10,544	-	236,794
Vehicles	-	24,000	-	24,000
Total capital assets, being depreciated	<u>1,935,284</u>	<u>34,544</u>	<u>-</u>	<u>1,969,828</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(16,613)	(4,747)	-	(21,360)
Buildings and improvements	(137,548)	(50,750)	-	(188,298)
Furniture and equipment	(85,802)	(23,669)	-	(109,471)
Vehicles	-	(1,500)	-	(1,500)
Total accumulated depreciation	<u>(239,963)</u>	<u>(80,666)</u>	<u>-</u>	<u>(320,629)</u>
Governmental activities capital assets, net	<u>\$ 1,717,681</u>	<u>\$ (46,122)</u>	<u>\$ -</u>	<u>\$ 1,671,559</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 1,500
Special	1,191

Support Services:

Pupil	1,548
Instructional staff	15,895
Administration	58,166
Fiscal	1,927
Business	350
Central	<u>89</u>

Total depreciation expense \$ 80,666

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

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

During fiscal year 2004, the ESC made principal payments of \$168,292 and interest payments of \$52,258. The principal and interest payments will be recorded as an expenditure in the general fund.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2004.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2005	\$ 220,550
2006	220,550
2007	220,550
2008	220,550
2009	<u>220,550</u>
Total minimum lease payment	1,102,750
Less: amount representing interest	<u>(131,601)</u>
Present value of minimum lease payments	<u>\$ 971,149</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - COMPENSATED ABSENCES

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

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

NOTE 10 - LONG-TERM OBLIGATIONS

The balance of the ESC's long-term obligations at June 30, 2003 have been restated. The compensated absences liability increased from \$165,158 to \$173,387 due to the implementation of GASB Interpretation No. 6 described in Note 3. In addition, pension obligations of \$21,141 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$12,912 from \$1,325,740 to \$1,312,828. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	(Restated) Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 173,387	\$ 17,084	\$ (2,150)	\$ 188,321	\$ 43,617
Note payable	-	27,183	(7,838)	19,345	9,010
Capital lease obligation	<u>1,139,441</u>	<u>-</u>	<u>(168,292)</u>	<u>971,149</u>	<u>176,398</u>
Total long-term obligations, governmental activities	<u>\$ 1,312,828</u>	<u>\$ 44,267</u>	<u>\$ (178,280)</u>	<u>\$ 1,178,815</u>	<u>\$ 229,025</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 9,010	\$ 838	\$ 9,848
2006	9,518	330	9,848
2007	<u>817</u>	<u>4</u>	<u>821</u>
Total	<u>\$ 19,345</u>	<u>\$ 1,172</u>	<u>\$ 20,517</u>

NOTE 11 - RISK MANAGEMENT

A. Comprehensive and Employee Health Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the ESC contracted with Westfield Insurance Company for commercial property insurance with a \$1,300,000 single occurrence limit and a \$500 deductible limit per year.

Professional liability is provided by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Driver's Education vehicles are covered by State Farm Insurance Company and hold a \$50 deductible for comprehensive and a \$250 deductible for collision. Bodily Injury/Property Damage liability has a \$500,000 per person/\$1,000,000 per accident and \$500,000 Property Damage liability per accident with a \$25,000 limit per person liability for medical payment. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Health Care Benefits

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$170,548, \$132,790, and \$116,581, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$424,021, \$362,634, and \$352,256, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$30,287 during fiscal 2004.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$73,540 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While 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 by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 78,690
Net adjustment for revenue accruals	(94,480)
Net adjustment for expenditure accruals	(59,188)
Net adjustment for other sources/uses	27,183
GAAP basis	\$ (47,795)

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

This page intentionally left blank.

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

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department Of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education-Grants to States	050260-6BS1-2004-P	84.027	\$776,308	\$763,033
	050260-6BS1-2003-P		355,012	410,064
			<u>1,131,320</u>	<u>1,173,097</u>
Special Education-Preschool Grants	050260-PGS1-2004	84.173	56,660	56,367
	050260-PGS1-2003			154
			<u>56,660</u>	<u>56,521</u>
Total Special Education Cluster			<u>1,187,980</u>	<u>1,229,618</u>
Safe and Drug-Free Schools and Communities - National Programs	050260-T4S1-2004	84.184C	17,104	17,104
Even Start-State Educational Agencies	050260-EVS3-2004	84.213	130,374	119,856
	050260-EVS3-2003		33,169	137,362
	050260-EVS4-2002			1,447
			<u>163,543</u>	<u>258,665</u>
Total Even Start-State Educational Agencies			<u>163,543</u>	<u>258,665</u>
Total U.S. Department of Education			1,368,627	1,505,387
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Assistance Program - Community Alternative Funding System (CAFS)		93.778	108,104	108,104
Total U.S. Department of Health and Human Services			<u>108,104</u>	<u>108,104</u>
Total			<u><u>\$1,476,731</u></u>	<u><u>\$1,613,491</u></u>

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this Schedule.

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

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) is a summary of the activity of the Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – MEDICAL ASSISTANCE PROGRAM

Cash receipts from U.S. Department of Health and Human Services for the Medical Assistance Program-CAFS are commingled with local funds. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Tuscarawas-Carroll-Harrison Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 30, 2005, in which we noted the Service Center adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

In a separate letter to the Service Center's management dated April 30, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance

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

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

Tuscarawas-Carroll-Harrison Educational Service Center
Tuscarawas County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 30, 2005



**Auditor of State
Betty Montgomery**

**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**

Tuscarawas-Carroll-Harrison Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

Compliance

We have audited the compliance of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (the 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 apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying Schedule of Findings identifies the Service Center's major federal program. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing other procedures 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 Service Center's compliance with those requirements.

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

Internal Control Over Compliance

The Service Center's management 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 Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when 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 the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 30, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**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

TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2005**