

TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

JULIE A. LYNCH, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Tuscarawas Carroll Harrison Educational Service Center, Tuscarawas County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 18, 2007

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TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio as of and for the fiscal year ended June 30, 2007, which collectively comprise Tuscarawas-Carroll-Harrison Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tuscarawas-Carroll-Harrison Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of Tuscarawas-Carroll-Harrison Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

For the budgetary comparison information, we have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



Julian & Grube, Inc.
November 16, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's 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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$527,988 which represents a 46.23% increase from 2006.
- General revenues accounted for \$1,364,886 in revenue or 21.81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,892,101 or 78.19% of total revenues of \$6,256,987.
- The ESC had \$5,728,999 in expenses related to governmental activities; \$4,892,101 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,364,886 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$6,075,641 in revenues and \$5,602,089 in expenditures. During fiscal year 2007, the general fund's fund balance increased \$473,552 from \$561,378 to \$1,034,930.

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 2007?" 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, 2007**

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 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 and pupil transportation.

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 fund. 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 15-18 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 19. 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 20-39 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The ESC as a Whole

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

The table below provides a summary of the ESC's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 1,307,399	\$ 1,116,428
Capital assets, net	<u>1,766,689</u>	<u>1,834,386</u>
Total assets	<u>3,074,088</u>	<u>2,950,814</u>
<u>Liabilities</u>		
Current liabilities	254,537	549,382
Long-term liabilities	<u>1,149,487</u>	<u>1,259,356</u>
Total liabilities	<u>1,404,024</u>	<u>1,808,738</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	922,625	857,799
Restricted	17,932	5,668
Unrestricted	<u>729,507</u>	<u>278,609</u>
Total net assets	<u>\$ 1,670,064</u>	<u>\$ 1,142,076</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the ESC's assets exceeded liabilities by \$1,670,064. Of this total, \$729,507 is unrestricted in use.

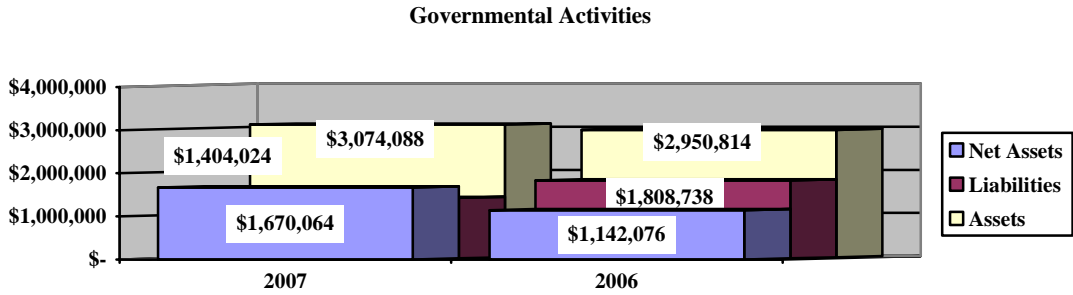
At year-end, capital assets represented 57.47% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$922,625. These capital assets are used to 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, \$17,932, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$729,507 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, 2007

The graph below presents the District's assets, liabilities and net assets for fiscal years 2007 and 2006.



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 4,710,755	\$ 4,195,896
Operating grants and contributions	181,346	158,498
General revenues:		
Grants and entitlements	1,323,898	1,474,037
Investment earnings	<u>40,988</u>	<u>32,672</u>
Total revenues	<u>6,256,987</u>	<u>5,861,103</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 297,678	\$ 355,433
Special	691,269	682,712
Vocational	18,070	-
Support services:		
Pupil	1,879,773	1,890,119
Instructional staff	1,788,699	1,776,205
Board of education	21,275	25,741
Administration	340,913	347,057
Fiscal	193,497	191,431
Business	143,038	129,617
Operations and maintenance	144,356	121,025
Pupil transportation	9,174	7,954
Central	156,800	168,968
Interest and fiscal charges	<u>44,457</u>	<u>51,888</u>
Total expenses	<u>5,728,999</u>	<u>5,748,150</u>
Change in net assets	527,988	112,953
Net assets at beginning of year	<u>1,142,076</u>	<u>1,029,123</u>
Net assets at end of year	<u><u>\$ 1,670,064</u></u>	<u><u>\$ 1,142,076</u></u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$527,988. Total governmental expenses of \$5,728,999 were offset by program revenues of \$4,892,101 and general revenues of \$1,364,886. Program revenues supported 85.39% of the total governmental expenses.

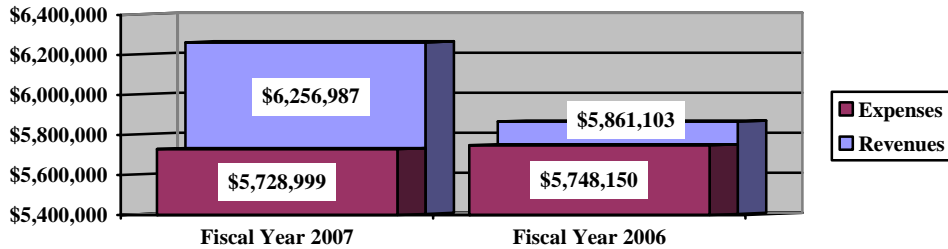
The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 75.29% of total governmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

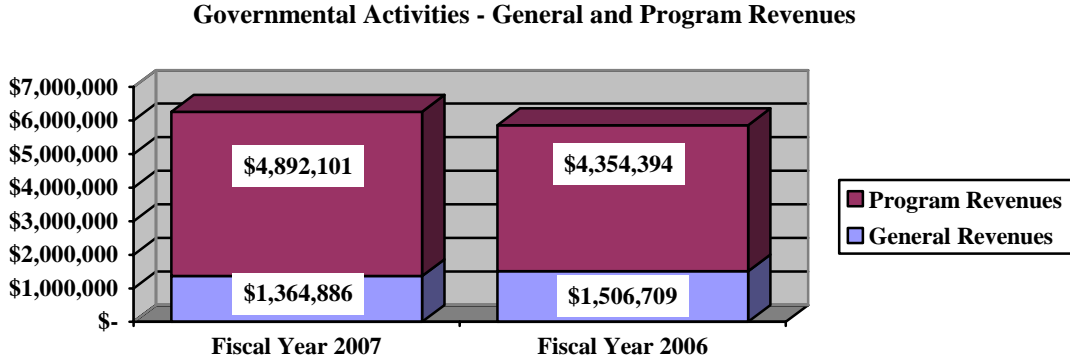
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 297,678	\$ 228,941	\$ 355,433	\$ 293,442
Special	691,269	(47,110)	682,712	14,316
Vocational	18,070	18,070	-	-
Support services:				
Pupil	1,879,773	(43,098)	1,890,119	158,116
Instructional staff	1,788,699	(63,791)	1,776,205	175,808
Board of education	21,275	21,275	25,741	25,741
Administration	340,913	48,513	347,057	77,852
Fiscal	193,497	193,497	191,431	191,431
Business	143,038	143,038	129,617	129,617
Operations and maintenance	144,356	144,356	121,025	121,025
Pupil transportation	9,174	(6,250)	7,954	(11,448)
Central	156,800	155,000	168,968	165,968
Interest and fiscal charges	44,457	44,457	51,888	51,888
Total expenses	<u>\$ 5,728,999</u>	<u>\$ 836,898</u>	<u>\$ 5,748,150</u>	<u>\$ 1,393,756</u>

The dependence upon other general revenues for governmental activities is apparent, 19.85% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 14.61%. 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, 2007

The graph below presents the ESC's governmental activities revenue for fiscal year 2007 and 2006.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,052,862, which is higher than last year's total of \$567,046. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>	Percentage <u>Change</u>
General	\$ 1,034,930	\$ 561,378	\$ 473,552	84.36 %
Other Governmental	<u>17,932</u>	<u>5,668</u>	<u>12,264</u>	216.37 %
Total	<u>\$ 1,052,862</u>	<u>\$ 567,046</u>	<u>\$ 485,816</u>	85.67 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

General Fund

The ESC's general fund balance increased by \$473,552. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 31,712	\$ 32,748	\$ (1,036)	(3.16) %
Earnings on investments	40,988	32,672	8,316	25.45 %
Customer services	4,679,043	4,163,148	515,895	12.39 %
Intergovernmental	<u>1,323,898</u>	<u>1,474,037</u>	<u>(150,139)</u>	(10.19) %
 Total	 <u>\$ 6,075,641</u>	 <u>\$ 5,702,605</u>	 <u>\$ 373,036</u>	 6.54 %
<u>Expenditures</u>				
Instruction	\$ 918,063	\$ 959,107	\$ (41,044)	(4.28) %
Support services	4,507,046	4,372,319	134,727	3.08 %
Capital outlay	-	251,600	(251,600)	(100.00) %
Debt service	<u>176,980</u>	<u>220,774</u>	<u>(43,794)</u>	(19.84) %
 Total	 <u>\$ 5,602,089</u>	 <u>\$ 5,803,800</u>	 <u>\$ (201,711)</u>	 (3.48) %

Customer services revenue increased 12.39% as a result of the ESC providing services to its member districts. Interest revenue increased 25.45% due to an increase in interest rates during the year. Capital outlay expenditures decreased in 2007 due to a lack of a new capital lease transactions during the year. The debt service expenditures decreased as a result of a lease purchase agreement maturing in the prior year. All other revenues and expenditures remain comparable to prior years.

Debt Administration and Capital Assets

Debt Administration

At June 30, 2007, the ESC had \$655,359 in capital lease obligations and \$188,705 in a lease purchase agreement outstanding. Of this total, \$118,364 is due within one year and \$725,700 is due in greater than one year. The following table summarizes the loans and lease obligations outstanding.

Outstanding Debt, at Year End

	<u>Governmental</u> <u>Activities</u> <u>2007</u>	<u>Governmental</u> <u>Activities</u> <u>2006</u>
Capital lease obligation	\$ 655,359	\$ 766,916
Lease purchase agreement	<u>188,705</u>	<u>209,671</u>
 Total	 <u>\$ 844,064</u>	 <u>\$ 976,587</u>

See Note 12 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, 2007

Capital Assets

At the end of fiscal year 2007, the ESC had \$1,766,689 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 year 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 22,360	\$ 22,360
Land improvements	59,332	64,079
Building and improvements	1,506,283	1,569,613
Furniture and equipment	165,214	161,834
Vehicles	13,500	16,500
 Total	 \$ 1,766,689	 \$ 1,834,386

The overall decrease in capital assets of \$67,697 is due to depreciation expense of \$97,987 exceeding capital outlays of \$30,290 in the fiscal year.

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

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 2007 due to the financial difficulties that districts are facing. However, the ESC anticipates an increase in contracts for required special education services and classroom technology support. District contracts, along with the ESC's cash balance will provide the necessary funds to meet its operating expenses in fiscal year 2007.

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

- 1.) Continued legislative efforts to realign Ohio's Regional Educational Delivery System and the implementation of that system by the Ohio Department of Education. At this point, the ESC is unable to determine what effect this legislation will have on future state funding and on its financial operations, however it is assumed that this system will directly affect the ESC's and the method used to fund the ESC.
- 2.) Approval of the Ohio Department of Job and Family Services request to discontinue the Community Alternative Funding Systems (CAFS) program effective July 1, 2006 will directly affect the method used to calculate specific special education costs to the districts that we service. Continuation of special education services is at risk as a result of the additional cost the district is forced to assume.
- 3.) One of the last challenges facing the ESC is to continue to provide our school districts with the most innovative and current ideas in classroom technology in a manner that is cost effective to districts that are already faced with financial difficulties.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,071,418
Receivables:	
Intergovernmental	213,930
Loan	22,051
Capital assets:	
Land	22,360
Depreciable capital assets, net	1,744,329
Capital assets, net.	1,766,689
 Total assets.	 3,074,088
Liabilities:	
Accounts payable.	199
Accrued wages and benefits	203,272
Pension obligation payable.	42,262
Intergovernmental payable	8,804
Long-term liabilities:	
Due within one year.	159,428
Due in more than one year.	990,059
Total liabilities	1,404,024
Net Assets:	
Invested in capital assets, net of related debt.	922,625
Restricted for:	
Locally funded programs.	13,593
State funded programs.	4,089
Federally funded programs.	250
Unrestricted.	729,507
Total net assets	\$ 1,670,064

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, 2007

	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	\$ 297,678	\$ -	\$ 68,737	\$ (228,941)
Special	691,269	731,869	6,510	47,110
Vocational	18,070	-	-	(18,070)
Support services:				
Pupil	1,879,773	1,883,935	38,936	43,098
Instructional staff	1,788,699	1,803,984	48,506	63,791
Board of education	21,275	-	-	(21,275)
Administration	340,913	290,967	1,433	(48,513)
Fiscal	193,497	-	-	(193,497)
Business	143,038	-	-	(143,038)
Operations and maintenance	144,356	-	-	(144,356)
Pupil transportation	9,174	-	15,424	6,250
Central	156,800	-	1,800	(155,000)
Interest and fiscal charges	44,457	-	-	(44,457)
Total governmental activities	\$ 5,728,999	\$ 4,710,755	\$ 181,346	(836,898)

General Revenues:

Grants and entitlements not restricted to specific programs	1,323,898
Investment earnings	40,988
Total general revenues	1,364,886
 Change in net assets	 527,988
 Net assets at beginning of year	 1,142,076
Net assets at end of year	\$ 1,670,064

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,053,486	\$ 17,932	\$ 1,071,418
Receivables:			
Intergovernmental	213,930	-	213,930
Loans	22,051	-	22,051
 Total assets	 \$ 1,289,467	 \$ 17,932	 \$ 1,307,399
 Liabilities:			
Accounts payable	\$ 199	\$ -	\$ 199
Accrued wages and benefits	203,272	-	203,272
Intergovernmental payable.	8,804	-	8,804
Pension obligation payable.	42,262	-	42,262
Total liabilities	254,537	-	254,537
 Fund Balances:			
Reserved for encumbrances	-	4,339	4,339
Unreserved, undesignated, reported in:			
General fund	1,034,930	-	1,034,930
Special revenue funds.	-	13,593	13,593
Total fund balances	1,034,930	17,932	1,052,862
 Total liabilities and fund balances	 \$ 1,289,467	 \$ 17,932	 \$ 1,307,399

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, 2007

Total governmental fund balances		\$ 1,052,862
<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.		1,766,689
Long-term liabilities, are not due and payable in the current period therefore are not reported in the funds		
Compensated absences	\$ 305,423	
Capital lease obligation	655,359	
Lease-purchase agreement	<u>188,705</u>	
Total		<u>(1,149,487)</u>
Net assets of governmental activities		<u><u>\$ 1,670,064</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition	\$ 31,712	\$ -	\$ 31,712
Earnings on investments	40,988	-	40,988
Customer services	4,679,043	-	4,679,043
Other revenue	-	9,815	9,815
Intergovernmental - State	1,323,898	100,176	1,424,074
Intergovernmental - Federal	-	71,355	71,355
Total revenues	6,075,641	181,346	6,256,987
Expenditures:			
Current:			
Instruction:			
Regular	218,905	63,158	282,063
Special	681,088	6,500	687,588
Vocational	18,070	-	18,070
Support services:			
Pupil	1,832,625	35,022	1,867,647
Instructional staff	1,754,851	45,959	1,800,810
Board of education	21,275	-	21,275
Administration	283,042	1,243	284,285
Fiscal	187,620	-	187,620
Business	135,739	-	135,739
Operations and maintenance	128,710	15,400	144,110
Pupil transportation	9,174	-	9,174
Central	154,010	1,800	155,810
Debt service:			
Principal retirement	132,523	-	132,523
Interest and fiscal charges	44,457	-	44,457
Total expenditures	5,602,089	169,082	5,771,171
Net change in fund balances	473,552	12,264	485,816
Fund balance at beginning of year	561,378	5,668	567,046
Fund balances at end of year	\$ 1,034,930	\$ 17,932	\$ 1,052,862

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, 2007

Net change in fund balances - total governmental funds	\$	485,816
 <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 exceeds capital outlays in the current period.		
Capital asset additions	\$ 30,290	
Current year depreciation	<u>(97,987)</u>	
Total		(67,697)
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		132,523
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(22,654)</u>
Change in net assets of governmental activities	\$	<u>527,988</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, 2007

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	587,293
Receivables:		
Intergovernmental		52,208
		<hr/>
Total assets.	\$	<u>639,501</u>
Liabilities:		
Accounts payable.	\$	3,000
Accrued wages and benefits		18,281
Pension obligation payable		5,192
Intergovernmental payable		41,966
Loan payable		22,051
Undistributed monies.		398,804
Due to students		150,207
		<hr/>
Total liabilities	\$	<u>639,501</u>

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, 2007**

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 seven-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 59 non-certificated employees and 93 certificated employees to provide services to approximately 12,672 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 fund provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

JOINTLY GOVERNED ORGANIZATION

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

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

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

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

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

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

RISK SHARING POOL

Tuscarawas-Conotton Valley Local Schools Benefit Trust Health 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 Trust will be extended to its employees. The ESC participates in the health care benefits only. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Benefit Services, Inc. P.O. Box 4138, Akron, Ohio 44321.

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007

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.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

E. 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 2007, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

The ESC has invested funds in STAR Ohio during fiscal 2007. 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, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$40,988, which includes \$6,444 assigned from other funds.

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

An analysis of the ESC's investment account at fiscal year-end is provided in Note 3.

F. 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's capitalization threshold is \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

G. Interfund Balances

Receivables and payables resulting from loans from governmental funds to the agency fund are classified as “loans receivable/payable.”

H. 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, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. 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.

K. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. 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.

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. The ESC made no interfund transfers during fiscal year 2007.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all ESC deposits was \$870,225. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,267,613 of the ESC's bank balance of \$1,367,613 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2007, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	<u>\$ 788,486</u>	<u>\$ 788,486</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 788,486	100.00

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 870,225
Investments	<u>788,486</u>
Total	<u>\$1,658,711</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,071,418
Agency funds	<u>587,293</u>
Total	<u>\$1,658,711</u>

NOTE 4 - INTERFUND TRANSACTIONS

Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The District had the following loan outstanding at fiscal year end:

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>
General	Agency	\$ 22,051

This loan is expected to be repaid in the subsequent year as resources become available in the agency funds.

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 12,672 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 - STATE FUNDING - (Continued)

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, 2007 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental Activities:

Intergovernmental	<u>\$ 213,930</u>
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Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 7 - OPERATING LEASE - LESSOR DISCLOSURE

During fiscal year 2007, the ESC entered into an operating lease with Buckeye Career Center (the "Career Center") for the use of a building that will be donated to the ESC and then leased back to the Career Center. This lease meets the criteria of an operating lease as defined by FASB Statement No. 13 "Accounting for Leases". The lease payment is \$2,000 per month; however, the Career Center has paid construction costs for the building and may use these costs as a credit against the rent payment. At June 30, 2007, the Career Center paid \$177,320 in construction costs and the building was not completed and had not been turned over to the ESC by the Career Center. The lease payments from the Career Center will not be due until the construction of the building is completed, which is expected to occur during fiscal year 2008.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance			Balance
	<u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/07</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	1,865,701	-	-	1,865,701
Furniture and equipment	321,755	30,290	(2,419)	349,626
Vehicles	24,000	-	-	24,000
Total capital assets, being depreciated	<u>2,306,389</u>	<u>30,290</u>	<u>(2,419)</u>	<u>2,334,260</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(30,854)	(4,747)	-	(35,601)
Buildings and improvements	(296,088)	(63,330)	-	(359,418)
Furniture and equipment	(159,921)	(26,910)	2,419	(184,412)
Vehicles	(7,500)	(3,000)	-	(10,500)
Total accumulated depreciation	<u>(494,363)</u>	<u>(97,987)</u>	<u>2,419</u>	<u>(589,931)</u>
Governmental activities capital assets, net	<u>\$ 1,834,386</u>	<u>\$ (67,697)</u>	<u>\$ -</u>	<u>\$ 1,766,689</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 15,580
Special	708

Support Services:

Pupil	1,574
Instructional staff	14,626
Administration	57,488
Fiscal	624
Business	7,299
Central	88

Total depreciation expense	<u>\$ 97,987</u>
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - 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.

Capital assets consisting of building and improvements have been capitalized in the amount of \$1,300,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$325,000, leaving a current book value of \$975,000. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$111,557, paid by the general fund.

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, 2007.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2008	\$ 156,013
2009	<u>567,421</u>
Total minimum lease payment	723,434
Less: amount representing interest	<u>(68,075)</u>
Present value of minimum lease payments	<u>\$ 655,359</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 JP Morgan Chase Leasing Corporation. The ESC is the lesser and JP Morgan Chase 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 JP Morgan Chase Trust Company, N.A. and JP Morgan Chase Leasing Corporation whereby JP Morgan Chase 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 JP Morgan Chase 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, 2007.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LEASE-PURCHASE AGREEMENT

In a prior year, the ESC entered into a lease-purchase with the Ohio Department of Natural Resources for the purchase of the STAR Alternative School building.

Capital assets consisting of buildings and improvements have been capitalized in the amount of \$251,600. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$18,870, leaving a current book value of \$232,730. A corresponding liability was recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$20,966, paid by the general fund.

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, 2007.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2008	\$ -
2009	20,966
2010	20,966
2011	20,966
2012	20,966
2013 - 2017	<u>104,841</u>
Present value of minimum lease payments	<u>\$ 188,705</u>

NOTE 11 - 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 Ohio or SERS.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - LONG-TERM OBLIGATIONS

During fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>One Year</u>	
Governmental Activities:						
Compensated absences	\$ 282,769	\$ 64,957	\$ (42,303)	\$ 305,423	\$ 41,064	
Capital lease obligation	766,916	-	(111,557)	655,359	118,364	
Lease-purchase agreement	<u>209,671</u>	<u>-</u>	<u>(20,966)</u>	<u>188,705</u>	<u>-</u>	
Total long-term obligations, governmental activities	<u>\$ 1,259,356</u>	<u>\$ 64,957</u>	<u>\$ (174,826)</u>	<u>\$ 1,149,487</u>	<u>\$ 159,428</u>	

Compensated absences will be paid from the fund from which the employee is paid, which includes the general fund.

NOTE 13 - 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 2007, the ESC contracted with Westfield Insurance Company for commercial property insurance with a \$1,300,000 single occurrence limit and a \$500 deductible limit per year.

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

B. Workers' Compensation

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - RISK MANAGEMENT - (Continued)

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

C. Health Care Benefits

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

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$121,876, \$114,765, and \$110,313, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$470,335, \$453,415, and \$429,741, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005. Contributions to the DC and Combined Plans for fiscal 2007 were \$7,458 made by the ESC and \$14,251 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$36,180 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. The surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, ESC paid \$58,837 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<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	\$ 28,936	\$ 31,712	\$ 31,712	\$ -
Earnings on investments.	37,400	40,988	40,988	-
Customer services	4,227,046	4,632,527	4,632,527	-
Intergovernmental - State	1,208,019	1,323,898	1,323,898	-
Total revenue	5,501,401	6,029,125	6,029,125	-
Expenditures:				
Current:				
Instruction:				
Regular	222,203	238,179	238,179	-
Special.	682,556	731,630	731,630	-
Vocational.	14,037	15,046	15,046	-
Support services:				
Pupil.	1,826,285	1,957,589	1,957,589	-
Instructional staff	1,728,600	1,852,880	1,852,880	-
Board of education	19,904	21,335	21,335	-
Administration.	266,029	285,156	285,156	-
Fiscal	173,903	186,406	186,406	-
Business	126,449	135,540	135,540	-
Operations and maintenance.	120,861	129,551	129,551	-
Pupil transportation	8,614	9,233	9,233	-
Central.	146,851	157,409	157,409	-
Debt service:				
Principal retirement	104,074	111,557	111,557	-
Interest and fiscal charges	61,035	65,423	65,423	-
Total expenditures.	5,501,401	5,896,934	5,896,934	-
Excess of revenues over expenditures.	-	132,191	132,191	-
Other financing uses:				
Advances out	-	(22,051)	(22,051)	-
Total other financing uses	-	(22,051)	(22,051)	-
Net change in fund balance	-	110,140	110,140	-
Fund balance at beginning of year	938,346	938,346	938,346	-
Fund balance at end of year.	\$ 938,346	\$ 1,048,486	\$ 1,048,486	\$ -

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**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advance Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

	<u>General</u>
Budget basis	\$ 110,140
Net adjustment for revenue accruals	46,516
Net adjustment for expenditure accruals	294,845
Net adjustment for other sources/(uses)	<u>22,051</u>
GAAP basis	<u>\$ 473,552</u>

SUPPLEMENTARY DATA

TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Special Education Cluster:				
(A) Special Education Grants to States	84.027	050260-6BEC-2005	\$ 39,024	\$ 43,977
(A) Special Education Grants to States	84.027	050260-6BSI-2006	238,449	252,999
(A) Special Education Grants to States	84.027	050260-6BSI-2007	837,117	750,525
Total Special Education Grants to State			<u>1,114,590</u>	<u>1,047,501</u>
(A) Special Education Preschool Grants	84.173	050260-PGS1-2006	-	140
(A) Special Education Preschool Grants	84.173	050260-PGS1-2007	71,355	71,105
Total Special Education Preschool Grants			<u>71,355</u>	<u>71,245</u>
Total Special Education Cluster			<u>1,185,945</u>	<u>1,118,746</u>
Even Start State Educational Agencies	84.213	050260-EVS1-2006	9,467	11,298
Even Start State Educational Agencies	84.213	050260-EVS1-2007	151,612	151,296
Total Even Start State Educational Agencies			<u>161,079</u>	<u>162,594</u>
Twenty-First Century Community Learning Centers	84.287	050260-T1S1-2006	-	4,603
Twenty-First Century Community Learning Centers	84.287	050260-T1S1-2007	299,361	296,353
Total Twenty-First Century Community Learning Centers			<u>299,361</u>	<u>300,956</u>
Special Education - State Personnel Development	84.323	050260-STS3-2005	103,122	122,211
Total Special Education - State Personnel Development			<u>103,122</u>	<u>122,211</u>
Total U.S. Department of Education			<u>1,749,507</u>	<u>1,704,507</u>
Total Federal Financial Assistance			<u>\$ 1,749,507</u>	<u>\$ 1,704,507</u>

(A) Included as part of "Special Education Grant Cluster" in determining major programs.

(B) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Tuscarawas-Carroll-Harrison Educational Service Center as of and for the fiscal year ended June 30, 2007, which collectively comprise Tuscarawas-Carroll-Harrison Educational Service Center's basic financial statements and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tuscarawas-Carroll-Harrison Educational Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tuscarawas-Carroll-Harrison Educational Service Center's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Tuscarawas-Carroll-Harrison Educational Service Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Tuscarawas-Carroll-Harrison Educational Service Center's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Tuscarawas-Carroll-Harrison Educational Service Center's financial statements that is more than inconsequential will not be prevented or detected by Tuscarawas-Carroll-Harrison Educational Service Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Tuscarawas-Carroll-Harrison Educational Service Center's internal control.

Governing Board
Tuscarawas-Carroll-Harrison Educational Service Center

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

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
November 16, 2007



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

Compliance

We have audited the compliance of Tuscarawas-Carroll-Harrison Educational Service Center with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. The Tuscarawas-Carroll-Harrison Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Tuscarawas-Carroll-Harrison Educational Service Center's management. Our responsibility is to express an opinion on Tuscarawas-Carroll-Harrison Educational Service Center's compliance based on our audit.

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

Governing Board
Tuscarawas-Carroll-Harrison Educational Service Center

In our opinion, Tuscarawas-Carroll-Harrison Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of Tuscarawas-Carroll-Harrison Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Tuscarawas-Carroll-Harrison Educational Service Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Tuscarawas-Carroll-Harrison Educational Service Center's internal control over compliance.

A control deficiency in Tuscarawas-Carroll-Harrison Educational Service Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Tuscarawas-Carroll-Harrison Educational Service Center's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Tuscarawas-Carroll-Harrison Educational Service Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Tuscarawas-Carroll-Harrison Educational Service Center's internal control.

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

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



Julian & Grube, Inc.
November 16, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

TUSCARAWAS CARROLL HARRISON EDUCATION 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
DECEMBER 31, 2007**