

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

TUSCARAWAS COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)
*FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

JULIE A. LYNCH, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Tuscarawas Carroll Harrison Educational Service Center
834 East High Avenue
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 and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. 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

February 14, 2007

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TUSCARAWAS-CARROLL-HARRISON EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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 the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio (the "ESC") as of and for the fiscal year ended June 30, 2006, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 ESC, Tuscarawas County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund 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 December 7, 2006, on our consideration of the ESC'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ESC's basic financial statements. The accompanying schedule of 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 the ESC. 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 7, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The discussion and analysis of the Tuscarawas-Carroll-Harrison Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$112,953 which represents a 10.98% increase from 2005.
- General revenues accounted for \$1,506,709 in revenue or 25.71% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,354,394 or 74.29% of total revenues of \$5,861,103.
- The ESC had \$5,748,150 in expenses related to governmental activities; \$4,354,394 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 \$1,506,709 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$5,954,205 in revenues and other financing sources and \$5,803,800 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$150,405 from \$410,973 to \$561,378.

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 2006?" 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, 2006**

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, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-42 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 1,116,428	\$ 1,152,023
Capital assets, net	<u>1,834,386</u>	<u>1,665,574</u>
Total assets	<u>2,950,814</u>	<u>2,817,597</u>
<u>Liabilities</u>		
Current liabilities	549,382	706,171
Long-term liabilities	<u>1,259,356</u>	<u>1,082,303</u>
Total liabilities	<u>1,808,738</u>	<u>1,788,474</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	857,799	771,701
Restricted	5,668	34,879
Unrestricted	<u>278,609</u>	<u>222,543</u>
Total net assets	<u>\$ 1,142,076</u>	<u>\$ 1,029,123</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's assets exceeded liabilities by \$1,142,076. Of this total, \$278,609 is unrestricted in use.

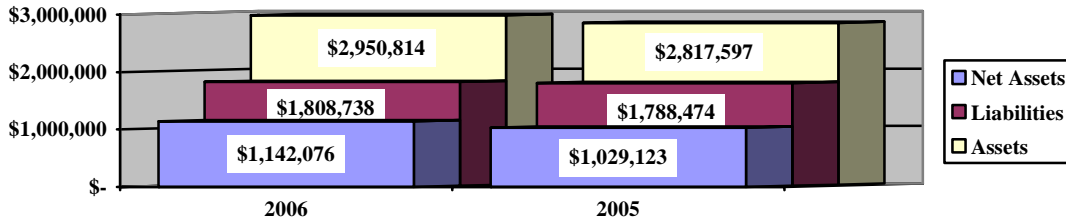
At year-end, capital assets represented 62.17% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$857,799. These capital assets are used to 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, \$5,668, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$278,609 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, 2006

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 4,195,896	\$ 4,333,866
Operating grants and contributions	158,498	220,888
General revenues:		
Grants and entitlements	1,474,037	1,452,549
Investment earnings	<u>32,672</u>	<u>19,133</u>
Total revenues	<u>5,861,103</u>	<u>6,026,436</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 355,433	\$ 306,309
Special	682,712	707,587
Support services:		
Pupil	1,890,119	1,938,311
Instructional staff	1,776,205	1,726,333
Board of education	25,741	18,837
Administration	347,057	336,499
Fiscal	191,431	178,303
Business	129,617	238,776
Operations and maintenance	121,025	92,449
Pupil transportation	7,954	7,764
Central	168,968	163,526
Interest and fiscal charges	<u>51,888</u>	<u>59,817</u>
Total expenses	<u>5,748,150</u>	<u>5,774,511</u>
Change in net assets	112,953	251,925
Net assets at beginning of year	<u>1,029,123</u>	<u>777,198</u>
Net assets at end of year	<u>\$ 1,142,076</u>	<u>\$ 1,029,123</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$112,953. Total governmental expenses of \$5,748,150 were offset by program revenues of \$4,354,394 and general revenues of \$1,506,709. Program revenues supported 75.75% of the total governmental expenses.

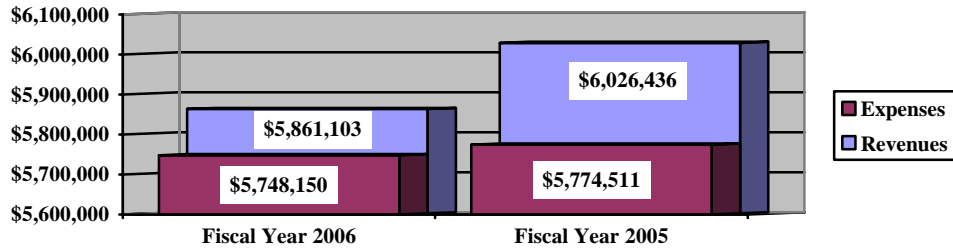
The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 71.59% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2006 and 2005.

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

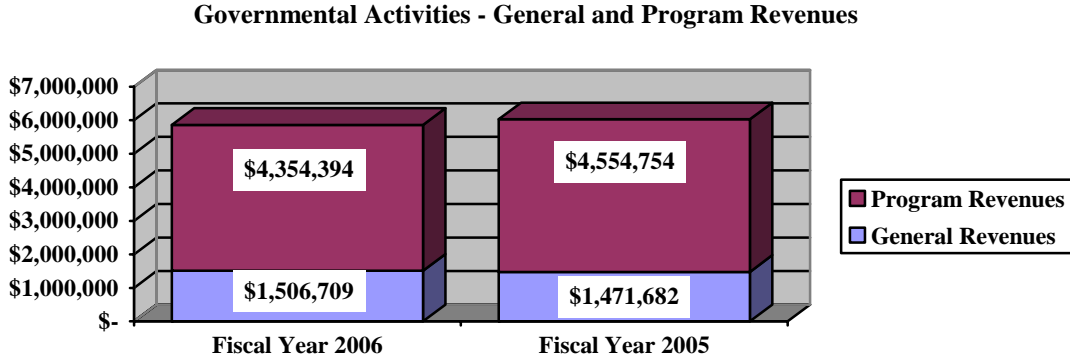
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 355,433	\$ 293,442	\$ 306,309	\$ 237,419
Special	682,712	14,316	707,587	(5,049)
Support services:				
Pupil	1,890,119	158,116	1,938,311	99,972
Instructional staff	1,776,205	175,808	1,726,333	80,921
Board of education	25,741	25,741	18,837	18,837
Administration	347,057	77,852	336,499	59,239
Fiscal	191,431	191,431	178,303	176,267
Business	129,617	129,617	238,776	238,776
Operations and maintenance	121,025	121,025	92,449	92,449
Pupil transportation	7,954	(11,448)	7,764	583
Central	168,968	165,968	163,526	160,526
Interest and fiscal charges	51,888	51,888	59,817	59,817
Total expenses	<u>\$ 5,748,150</u>	<u>\$ 1,393,756</u>	<u>\$ 5,774,511</u>	<u>\$ 1,219,757</u>

The dependence upon other general revenues for governmental activities is apparent, 29.64% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 24.25%. 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, 2006

The graph below presents the ESC's governmental activities revenue for fiscal year 2006 and 2005.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$567,046, which is higher than last year's total of \$445,852. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 561,378	\$ 410,973	\$ 150,405	36.60 %
Other Governmental	<u>5,668</u>	<u>34,879</u>	<u>(29,211)</u>	(83.75) %
Total	<u>\$ 567,046</u>	<u>\$ 445,852</u>	<u>\$ 121,194</u>	27.18 %

General Fund

The ESC's general fund balance increased by \$150,405. During 2006 the ESC's expenditures exceeded revenues by \$101,195. The increase in fund balance can be attributed to a lease – purchase agreement that the ESC entered into during 2006 in the amount of \$251,600. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 32,748	\$ 33,450	\$ (702)	(2.10) %
Earnings on investments	32,672	19,133	13,539	70.76 %
Customer services	4,163,148	4,300,416	(137,268)	(3.19) %
Intergovernmental	<u>1,474,037</u>	<u>1,452,549</u>	<u>21,488</u>	1.48 %
 Total	 <u>\$ 5,702,605</u>	 <u>\$ 5,805,548</u>	 <u>\$ (102,943)</u>	 (1.77) %
<u>Expenditures</u>				
Instruction	\$ 959,107	\$ 941,321	\$ 17,786	1.89 %
Support services	4,372,319	4,518,984	(146,665)	(3.25) %
Capital outlay	251,600	17,000	234,600	1,380.00 %
Debt service	<u>220,774</u>	<u>173,438</u>	<u>47,336</u>	27.29 %
 Total	 <u>\$ 5,803,800</u>	 <u>\$ 5,650,743</u>	 <u>\$ 153,057</u>	 2.71 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues were \$5,562,206 and final budgeted revenues were \$5,735,670. Actual revenues for fiscal 2006 was \$5,735,670 which equals final budgeted revenues.

General fund original appropriations of \$5,535,401 were increased to \$5,708,989 in the final budget. The actual budget basis expenditures for fiscal year 2006 totaled \$5,708,989, which equals the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the ESC had \$1,834,386 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 22,360	\$ 22,360
Land improvements	64,079	68,826
Building and improvements	1,569,613	1,375,053
Furniture and equipment	161,834	179,835
Vehicles	16,500	19,500
 Total	 \$ 1,834,386	 \$ 1,665,574

The overall increase in capital assets of \$168,812 is due to capital outlays of \$259,277 exceeding depreciation expense of \$90,465 in the fiscal year.

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

Debt Administration

At June 30, 2006, the ESC had \$766,916 in capital lease obligations and \$209,671 in a lease purchase agreement outstanding. Of this total, \$111,557 is due within one year and \$865,030 is due within greater than one year. The following table summarizes the loans and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2006	2005
Loan payable	\$ -	\$ 10,335
Capital lease obligation	766,916	872,056
Lease purchase agreement	209,671	11,482
 Total	 \$ 976,587	 \$ 893,873

See Note 11 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, 2006**

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 2006 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 2006.

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, 2005 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.

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

Contacting the ESC's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 949,014
Receivables:	
Intergovernmental	167,414
Capital assets:	
Land	22,360
Depreciable capital assets, net	1,812,026
Capital assets, net.	1,834,386
 Total assets.	 2,950,814
Liabilities:	
Accounts payable.	386
Accrued wages and benefits	463,795
Pension obligation payable.	75,200
Intergovernmental payable	10,001
Long-term liabilities:	
Due within one year.	149,614
Due in more than one year.	1,109,742
Total liabilities	1,808,738
Net Assets:	
Invested in capital assets, net of related debt.	857,799
Restricted for:	
Locally funded programs.	4,514
State funded programs.	1,014
Federally funded programs.	140
Unrestricted.	278,609
Total net assets	\$ 1,142,076

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, 2006

	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	\$ 355,433	\$ -	\$ 61,991	\$ (293,442)
Special	682,712	662,626	5,770	(14,316)
Support services:				
Pupil	1,890,119	1,718,057	13,946	(158,116)
Instructional staff	1,776,205	1,546,008	54,389	(175,808)
Board of education	25,741	-	-	(25,741)
Administration	347,057	269,205	-	(77,852)
Fiscal	191,431	-	-	(191,431)
Business	129,617	-	-	(129,617)
Operations and maintenance	121,025	-	-	(121,025)
Pupil transportation	7,954	-	19,402	11,448
Central	168,968	-	3,000	(165,968)
Interest and fiscal charges	51,888	-	-	(51,888)
Total governmental activities	<u>\$ 5,748,150</u>	<u>\$ 4,195,896</u>	<u>\$ 158,498</u>	<u>(1,393,756)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,474,037
Investment earnings	32,672
Total general revenues	<u>1,506,709</u>
Change in net assets	112,953
Net assets at beginning of year	<u>1,029,123</u>
Net assets at end of year	<u>\$ 1,142,076</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 943,346	\$ 5,668	\$ 949,014
Receivables:			
Intergovernmental	167,414	-	167,414
Total assets	\$ 1,110,760	\$ 5,668	\$ 1,116,428
Liabilities:			
Accounts payable	\$ 386	\$ -	\$ 386
Accrued wages and benefits	463,795	-	463,795
Intergovernmental payable.	10,001	-	10,001
Pension obligation payable.	75,200	-	75,200
Total liabilities	549,382	-	549,382
Fund Balances:			
Reserved for encumbrances	-	140	140
Unreserved, undesignated, reported in:			
General fund	561,378	-	561,378
Special revenue funds.	-	5,528	5,528
Total fund balances	561,378	5,668	567,046
Total liabilities and fund balances	\$ 1,110,760	\$ 5,668	\$ 1,116,428

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, 2006

Total governmental fund balances		\$	567,046
<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.			1,834,386
Long-term liabilities, are not due and payable in the current period therefore are not reported in the funds			
Compensated absences	\$	(282,769)	
Capital lease obligation		(766,916)	
Lease-purchase agreement		(209,671)	
		<u> </u>	
Total			<u>(1,259,356)</u>
Net assets of governmental activities		\$	<u><u>1,142,076</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, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition.	\$ 32,748	\$ -	\$ 32,748
Earnings on investments.	32,672	-	32,672
Customer services.	4,163,148	-	4,163,148
Intergovernmental - State.	1,291,604	82,023	1,373,627
Intergovernmental - Federal	182,433	76,475	258,908
Total revenue	<u>5,702,605</u>	<u>158,498</u>	<u>5,861,103</u>
Expenditures:			
Current:			
Instruction:			
Regular	285,808	61,991	347,799
Special.	673,299	7,732	681,031
Support services:			
Pupil.	1,836,491	16,596	1,853,087
Instructional staff	1,652,583	71,399	1,723,982
Board of education	25,741	-	25,741
Administration.	287,763	991	288,754
Fiscal	189,719	-	189,719
Business	122,418	-	122,418
Operations and maintenance.	95,182	26,000	121,182
Pupil transportation	7,954	-	7,954
Central.	154,468	3,000	157,468
Capital outlay.	251,600	-	251,600
Debt service:			
Principal retirement	168,886	-	168,886
Interest and fiscal charges	51,888	-	51,888
Total expenditures	<u>5,803,800</u>	<u>187,709</u>	<u>5,991,509</u>
Excess of revenues (under) expenditures.	<u>(101,195)</u>	<u>(29,211)</u>	<u>(130,406)</u>
Other financing sources:			
Lease-purchase agreement	251,600	-	251,600
Total other financing sources	<u>251,600</u>	<u>-</u>	<u>251,600</u>
Net change in fund balances	150,405	(29,211)	121,194
Fund balance at beginning of year.	<u>410,973</u>	<u>34,879</u>	<u>445,852</u>
Fund balances at end of year.	<u>\$ 561,378</u>	<u>\$ 5,668</u>	<u>\$ 567,046</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	121,194
 <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 capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 259,277	
Current year depreciation	<u>(90,465)</u>	
Total		168,812
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		168,886
 Lease-purchase transactions are recorded as revenue in the funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(251,600)
 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>(94,339)</u>
Change in net assets of governmental activities	\$	<u>112,953</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<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	\$ 30,182	\$ 32,748	\$ 32,748	\$ -
Earnings on investments.	31,684	32,672	32,672	-
Customer services	4,070,882	4,196,213	4,196,213	-
Intergovernmental - State	1,252,542	1,291,604	1,291,604	-
Intergovernmental - Federal.	176,916	182,433	182,433	-
Total revenue	<u>5,562,206</u>	<u>5,735,670</u>	<u>5,735,670</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	285,050	293,989	293,989	-
Special.	684,887	706,365	706,365	-
Support services:				
Pupil.	1,846,425	1,904,328	1,904,328	-
Instructional staff	1,642,337	1,693,840	1,693,840	-
Board of education	24,894	25,674	25,674	-
Administration.	288,143	297,180	297,180	-
Fiscal	189,022	194,949	194,949	-
Business	130,662	134,760	134,760	-
Operations and maintenance.	92,982	95,898	95,898	-
Pupil transportation	7,856	8,102	8,102	-
Central.	151,219	155,961	155,961	-
Debt service:				
Principal retirement	142,597	147,069	147,069	-
Interest and fiscal charges	49,327	50,874	50,874	-
Total expenditures.	<u>5,535,401</u>	<u>5,708,989</u>	<u>5,708,989</u>	<u>-</u>
Net change in fund balance	26,805	26,681	26,681	-
Fund balance at beginning of year	<u>911,665</u>	<u>911,665</u>	<u>911,665</u>	<u>-</u>
Fund balance at end of year	<u>\$ 938,470</u>	<u>\$ 938,346</u>	<u>\$ 938,346</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 690,653
Receivables:	
Intergovernmental	24,133
Total assets.	\$ 714,786
Liabilities:	
Accounts payable.	\$ 581
Accrued wages and benefits	47,775
Pension obligation payable	13,497
Intergovernmental payable	1,208
Undistributed monies.	541,599
Due to students	110,126
Total liabilities	\$ 714,786

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The ESC operates under an elected five-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 53 non-certificated employees and 96 certificated employees to provide services to approximately 12,804 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 organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organizations resources; 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, 2006

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, 2006

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

RISK SHARING POOL

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

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

Each entity decides which plans offered by the 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, 2006

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, 2006

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

E. Budgets

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

Estimated Resources:

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

Appropriations:

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

Encumbrances:

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

Lapsing of Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

F. Cash and Investments

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

During fiscal year 2006, 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 2006. 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, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$32,672, which includes \$5,333 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 year-end is provided in Note 4.

G. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

H. Interfund Balances

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

The ESC had no short-term interfund loans receivable or payable at June 30, 2006.

I. Compensated Absences

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

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

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

For governmental fund financial statements, 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.

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

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

L. Net Assets

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

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

M. Estimates

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary 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 2006.

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim 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.

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

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

Protection of 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.

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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all ESC deposits was \$890,855. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$1,275,874 of the ESC’s bank balance of \$1,375,874 was exposed to custodial risk as discussed below, while \$100,000 was covered by 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, 2006, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	<u>\$ 748,812</u>	<u>\$ 748,812</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.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 748,812</u>	<u>100.00</u>

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

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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 890,855
Investments	<u>748,812</u>
Total	<u>\$ 1,639,667</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 949,014
Agency funds	<u>690,653</u>
Total	<u>\$ 1,639,667</u>

NOTE 5 - STATE FUNDING

The ESC is funded by the State Board of Education from state funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the ESC receives \$47.02 for each of the 12,804 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the ESC's supervision) is apportioned by the State Board of Education among the local school districts to which the ESC provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 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>\$ 167,414</u>
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Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
<i>Governmental Activities</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,360	\$ -	\$ -	\$ 22,360
Total capital assets, not being depreciated	<u>22,360</u>	<u>-</u>	<u>-</u>	<u>22,360</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	94,933	-	-	94,933
Buildings and improvements	1,614,101	251,600	-	1,865,701
Furniture and equipment	314,078	7,677	-	321,755
Vehicles	24,000	-	-	24,000
Total capital assets, being depreciated	<u>2,047,112</u>	<u>259,277</u>	<u>-</u>	<u>2,306,389</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(26,107)	(4,747)	-	(30,854)
Buildings and improvements	(239,048)	(57,040)	-	(296,088)
Furniture and equipment	(134,243)	(25,678)	-	(159,921)
Vehicles	(4,500)	(3,000)	-	(7,500)
Total accumulated depreciation	<u>(403,898)</u>	<u>(90,465)</u>	<u>-</u>	<u>(494,363)</u>
Governmental activities capital assets, net	<u>\$ 1,665,574</u>	<u>\$ 168,812</u>	<u>\$ -</u>	<u>\$ 1,834,386</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 9,290
Special	950

Support Services:

Pupil	1,561
Instructional staff	13,090
Administration	57,488
Fiscal	799
Business	7,199
Central	<u>88</u>

Total depreciation expense \$ 90,465

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

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

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, 2006 was \$292,500, leaving a current book value of \$1,007,500. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$105,140, 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, 2006.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2007	\$ 156,014
2008	156,013
2009	<u>567,421</u>
Total minimum lease payment	879,448
Less: amount representing interest	<u>(112,532)</u>
Present value of minimum lease payments	<u>\$ 766,916</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, 2006.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - LEASE-PURCHASE AGREEMENT

- A. During 2005 the ESC entered into a lease-purchase with Kansas State Bank to finance the acquisition of a digital printer.

During fiscal year 2006, the liability was paid in full. Capital assets consisting of equipment have been capitalized in the amount of \$17,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$5,100, leaving a current book value of \$11,900. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$11,482, paid by the general fund.

- B. During 2006 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, 2006 was \$6,290, leaving a current book value of \$244,710. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$41,929, 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, 2006.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2007	\$ -
2008	20,966
2009	20,966
2010	20,966
2011	20,966
2012 - 2016	104,830
2017	<u>20,977</u>
Present value of minimum lease payments	<u>\$ 209,671</u>

NOTE 10 - COMPENSATED ABSENCES

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - LONG-TERM OBLIGATIONS

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 188,430	\$ 135,648	\$ (41,309)	\$ 282,769	\$ 38,057
Note payable	10,335	-	(10,335)	-	-
Capital lease obligation	872,056	-	(105,140)	766,916	111,557
Lease-purchase agreement	<u>11,482</u>	<u>251,600</u>	<u>(53,411)</u>	<u>209,671</u>	<u>-</u>
Total long-term obligations, governmental activities	<u>\$ 1,082,303</u>	<u>\$ 387,248</u>	<u>\$ (210,195)</u>	<u>\$ 1,259,356</u>	<u>\$ 149,614</u>

Note payable - On July 3, 2003, the ESC received a note in the amount of \$27,183 from First National Bank of Dennison for the purpose of purchasing three vehicles. Payments of principal and interest relating to this liability are recorded as expenditures in the general fund. During fiscal year 2006, the liability was paid in full.

NOTE 12 - 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 2006, 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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NOTE 12 - 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 Great American Reserve Insurance Company, administered by CoreSource Insurance Company, in the amount of \$50,000 per employee. The ESC has elected to provide health care benefits to employees and administrators through the Tuscarawas-Conotton Valley Local Schools Benefit Trust Health Consortium which is maintained by the ESC. The employees share the cost of the monthly premium with the board.

NOTE 13 - 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 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. For fiscal year 2004, 9.09 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, 2006, 2005, and 2004 were \$114,765, \$110,313, and \$110,734, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - 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.

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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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, 2006, 2005, and 2004 were \$453,415, \$429,741, and \$393,734, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal 2006 were \$10,605 made by the ESC and \$16,842 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2006, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the (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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$34,878 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, ESC paid \$58,048 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues and financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 26,681
Net adjustment for revenue accruals	(33,065)
Net adjustment for expenditure accruals	(94,811)
Net adjustment for other sources/uses	251,600
GAAP basis	\$ 150,405

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 16 – CONTINGENCIES - (Continued)

B. Litigation

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

SUPPLEMENTAL DATA

TUSCARAWAS - CARROLL - HARRISON ESC
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	(E) 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	\$ 140,976	\$ 142,656
(A) Special Education Grants to States	84.027	050260-6BSI-2005	234,848	243,118
(A) Special Education Grants to States	84.027	050260-6BSI-2006	810,104	795,554
(A)(B) Special Education Grants to States	84.027	050260-6BST-2005	95,651	114,231
(A) Special Education Grants to States	84.027	050260-6BST-2006	133,492	98,100
Total Special Education Grants to State			<u>1,415,071</u>	<u>1,393,659</u>
(A) Special Education Preschool Grants	84.173	050260-PGS1-2005	20,134	26,145
(A) Special Education Preschool Grants	84.173	050260-PGS1-2006	76,476	76,336
Total Special			<u>96,610</u>	<u>102,481</u>
Total Special Education Cluster			<u>1,511,681</u>	<u>1,496,140</u>
Even Start State Educational Agencies	84.213	050260-EVS1-2005	27,486	33,918
Even Start State Educational Agencies	84.213	050260-EVS1-2006	225,230	223,398
Total Safe and Drug-Free Schools and Communities State Grants			<u>252,716</u>	<u>257,316</u>
Twenty-First Century Community Learning Center:	84.287	050260-T1S1-2005	75,500	83,262
Twenty-First Century Community Learning Center:	84.287	050260-T1S1-2006	299,361	294,758
Total Twenty-First Century Community Learning Centers			<u>374,861</u>	<u>378,020</u>
Total U.S. Department of Education			<u>2,139,258</u>	<u>2,131,476</u>
U.S. DEPARTMENT OF HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES				
State Children's Insurance Program	93.767	N/A	17,914	17,914
Medical Assistance Program	93.778	N/A	163,689	163,689
Total U.S. Department of Human Services			<u>181,603</u>	<u>181,603</u>
Total Federal Financial Assistance			<u>\$ 2,320,861</u>	<u>\$ 2,313,079</u>

(A) Included as part of "Special Education Grant Cluster" in determining major programs.
(B) Monies refunded to the Ohio Department of Education due to the expiration of the period of availability
(C) This schedule was prepared on the cash basis of accounting



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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 the Tuscarawas-Carroll-Harrison Educational Service Center (the "ESC"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the ESC's basic financial statements, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that we have reported to the management of the ESC in a separate letter dated December 7, 2006.

Governing Board
Tuscarawas-Carroll-Harrison Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ESC'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 management and the Board of the ESC, 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.".

Julian & Grube, Inc.
December 7, 2006



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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 Each
Major Federal 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 the Tuscarawas-Carroll-Harrison Educational Service Center (the “ESC”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The ESC’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the ESC’s management. Our responsibility is to express an opinion on the ESC’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 the ESC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC’s compliance with those requirements.

Governing Board
Tuscarawas-Carroll-Harrison Educational Service Center

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the management, the Board of the ESC, 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.
December 7, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Program Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Special Education Cluster- Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Grants - CDFA #84.173, Twenty-First Century Community Learning Centers - CFDA #84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

**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 EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 27, 2007**