

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

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2010***

DAVID DENBOW, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Tri-County Educational Service Center, Wayne County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 18, 2011

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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Focused on Your Future.

January 31, 2011

The Governing Board
Tri-County Educational Service Center
741 Winkler Drive.
Wooster, Ohio 44691

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center (the Service Center), as of and for the year ended June 30, 2010, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Ashland County Community Academy; a discretely presented component unit of the Service Center, which represent 3.07 percent, 4.50 percent and 5.45 percent, respectively, of the assets, net assets and revenues of the reporting entity. Ashland County Community Academy's financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ashland County Community Academy is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Service Center, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tri-County Educational Service Center
Independent Auditor's Report
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2011, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) for the General fund and the Miscellaneous Federal Grants fund provides additional information and is not a required part of the basic financial statements. We subjected the schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kear & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Tri-County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities decreased \$86,206 which represents a 2.54% decrease from 2009.
- General revenues accounted for \$1,702,836 in revenue or 11.68% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$12,872,993 or 88.32% of total revenues of \$14,575,829.
- The ESC had \$14,662,035 in expenses related to governmental activities; only \$12,872,993 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$1,702,836 were not adequate to provide for these programs.
- The ESC's has two major governmental funds, the general fund and the miscellaneous federal grants fund. The general fund had \$13,125,882 in revenues and \$13,391,030 in expenditures. During fiscal 2010, the general fund's fund balance decreased \$265,148 from \$1,693,473 to \$1,428,325.
- The miscellaneous federal grants fund had \$745,853 in revenues and \$821,527 in expenditures. During fiscal 2010, the miscellaneous federal grants fund's fund balance decreased \$75,674 from \$43,965 to a fund balance deficit of \$31,709.

Using the Basic Financial Statements (BFS)

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 and the miscellaneous federal grants fund are the only governmental funds reported as major funds.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 2010?" The statement of net assets and 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.

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 increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the statement of net assets and statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and other 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 funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the miscellaneous federal grants 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 statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds

The ESC maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for medical/surgical, vision and dental self-insurance. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. 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 23-48 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general and miscellaneous federal grants funds as supplementary information on pages 49-52 of this report.

The ESC as a Whole

The table below provides a summary of the ESC's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 4,848,706	\$ 4,884,617
Capital assets, net	<u>468,340</u>	<u>468,637</u>
Total assets	<u>5,317,046</u>	<u>5,353,254</u>
<u>Liabilities</u>		
Current liabilities	1,546,922	1,495,201
Long-term liabilities	<u>461,817</u>	<u>463,540</u>
Total liabilities	<u>2,008,739</u>	<u>1,958,741</u>
<u>Net Assets</u>		
Invested in capital assets	468,340	468,637
Restricted	166,873	143,970
Unrestricted	<u>2,673,094</u>	<u>2,781,906</u>
Total net assets	<u>\$ 3,308,307</u>	<u>\$ 3,394,513</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the ESC's assets exceeded liabilities by \$3,308,307. Of this total, \$166,873 is restricted in use.

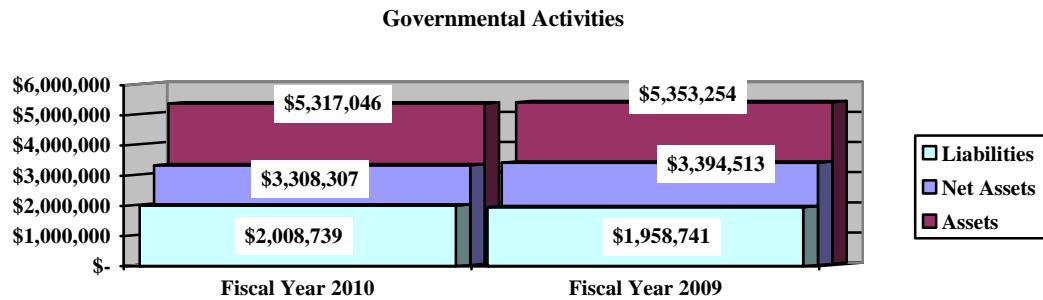
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

At year-end, capital assets represented 8.81% of total assets. Capital assets include land, buildings and improvements and furniture and equipment. Capital assets, net of accumulated depreciation, at June 30, 2010 were \$468,340. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$166,873, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,673,094 may be used to meet the ESC's ongoing obligations to the ESC's students and creditors.

The graph below illustrates the ESC's assets, liabilities, and net assets at June 30, 2010 and 2009.



The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
Revenues		
Program revenues:		
Charges for services and sales	\$ 9,943,409	\$ 10,051,578
Operating grants and contributions	2,929,584	2,502,860
General revenues:		
Grants and entitlements	1,635,227	1,784,080
Investment earnings	47,976	91,827
Other	<u>19,633</u>	<u>7,603</u>
Total revenues	<u>14,575,829</u>	<u>14,437,948</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
Expenses		
Program expenses:		
Instruction:		
Regular	\$ 901,128	\$ 1,107,607
Special	1,584,514	1,404,643
Adult/continuing	60,375	62,701
Support services:		
Pupil	2,598,182	2,735,480
Instructional staff	3,312,825	2,767,649
Board of education	51,385	43,337
Administration	500,875	451,165
Fiscal	316,097	317,914
Business	166,290	157,721
Operations and maintenance	207,579	192,545
Pupil transportation	30,879	2,117
Central	1,498,791	1,313,607
Operations of non-instructional services	<u>3,433,115</u>	<u>3,539,505</u>
Total expenses	<u>14,662,035</u>	<u>14,095,991</u>
Change in net assets	(86,206)	341,957
Net assets at beginning of year	<u>3,394,513</u>	<u>3,052,556</u>
Net assets at end of year	<u>\$ 3,308,307</u>	<u>\$ 3,394,513</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$86,206. Total governmental expenses of \$14,662,035 were offset by program revenues of \$12,872,993 and general revenues of \$1,702,836. Program revenues supported 87.80% of the total governmental expenses.

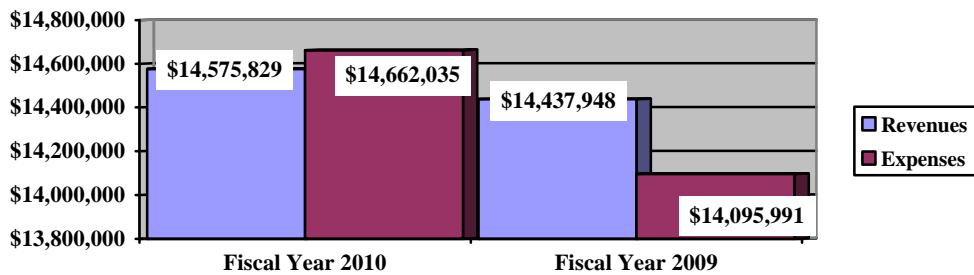
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 68.22% of total governmental revenue.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2010 and 2009.

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 unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 901,128	\$ 179,085	\$ 1,107,607	\$ 213,760
Special	1,584,514	361,644	1,404,643	336,205
Adult/continuing	60,375	15,260	62,701	16,907
Support services:				
Pupil	2,598,182	620,413	2,735,480	646,906
Instructional staff	3,312,825	751,859	2,767,649	501,701
Board of education	51,385	(16,262)	43,337	11,686
Administration	500,875	72,691	451,165	99,899
Fiscal	316,097	61,543	317,914	70,020
Business	166,290	40,945	157,721	35,265
Operations and maintenance	207,579	59,961	192,545	58,858
Pupil transportation	30,879	6,621	2,117	(232)
Central	1,498,791	385,943	1,313,607	282,750
Operations of non-instructional services	<u>3,433,115</u>	<u>(750,661)</u>	<u>3,539,505</u>	<u>(732,172)</u>
Total	<u>\$ 14,662,035</u>	<u>\$ 1,789,042</u>	<u>\$ 14,095,991</u>	<u>\$ 1,541,553</u>

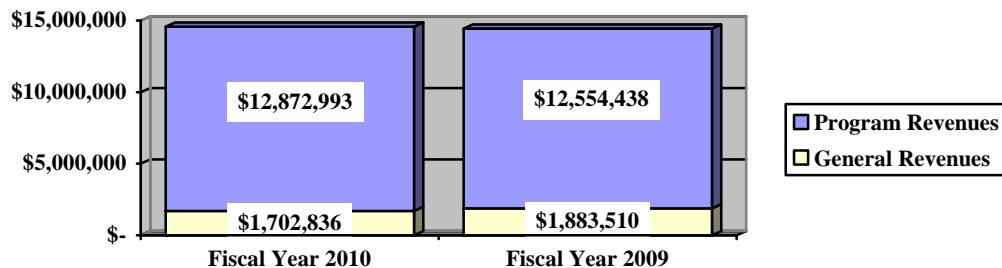
For all governmental activities, program revenue support is 87.80%. The primary support of the ESC is contracted fees for services provided to other districts.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the ESC's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,380,800, which is less than last year's total of \$1,783,811. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (Deficit)	Fund Balance	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>(Decrease)</u>
General	\$ 1,428,325	\$ 1,693,473	\$ (265,148)
Miscellaneous Federal Grants	(31,709)	43,965	(75,674)
Other Governmental	<u>(15,816)</u>	<u>46,373</u>	<u>(62,189)</u>
Total	<u>\$ 1,380,800</u>	<u>\$ 1,783,811</u>	<u>\$ (403,011)</u>

General Fund

The ESC's general fund balance decreased \$265,148. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

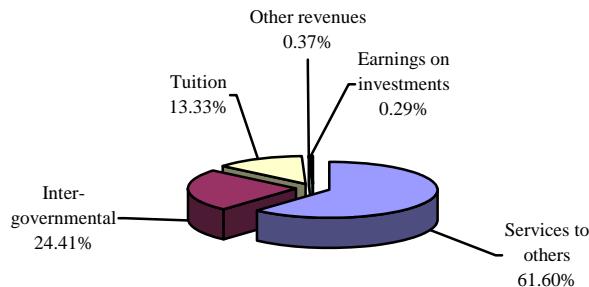
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WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

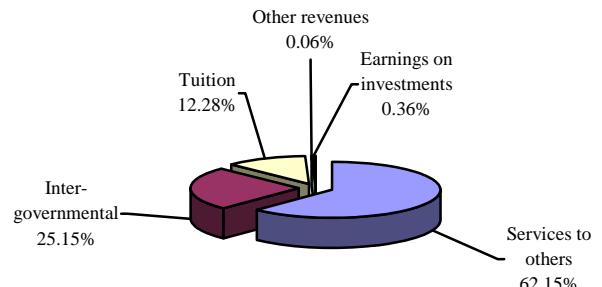
	2010 <u>Amount</u>	2009 <u>Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Services provided to other entities	\$ 8,084,323	\$ 8,238,600	(1.87) %
Tuition	1,750,062	1,627,828	7.51 %
Earnings on investments	37,942	47,991	(20.94) %
Intergovernmental	3,204,672	3,333,841	(3.87) %
Other revenues	<u>48,883</u>	<u>7,603</u>	542.94 %
Total	<u>\$ 13,125,882</u>	<u>\$ 13,255,863</u>	(0.98) %
<u>Expenditures</u>			
Instruction	\$ 2,211,077	\$ 2,374,202	(6.87) %
Support services	7,749,660	7,489,341	3.48 %
Operation of non-instructional	<u>3,430,293</u>	<u>3,704,530</u>	(7.40) %
Total	<u>\$ 13,391,030</u>	<u>\$ 13,568,073</u>	(1.30) %

Earnings on investments decreased 20.94% due to a decrease in available cash balances throughout the year. Other revenues increased \$41,280 or 542.94%, primarily due to an increase in contributions and donations. All other revenues and expenditures remained comparable to the prior year.

Revenues - Fiscal Year 2010



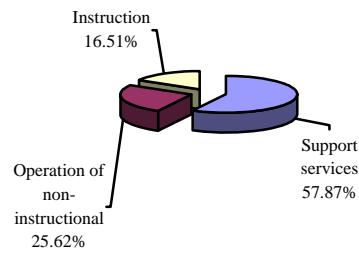
Revenues - Fiscal Year 2009



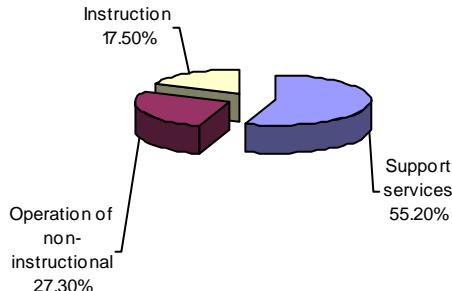
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WAYNE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Expenditures - Fiscal Year 2010



Expenditures - Fiscal Year 2009



Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the ESC had \$468,340 invested in land, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. An adjustment to the June 30, 2009 accumulated depreciation balance was made between buildings and improvements and furniture and equipment in the amount of \$8,970 to properly state the balances. The following table shows 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 77,981	\$ 77,981
Buildings and improvements	280,753	292,106
Furniture and equipment	<u>109,606</u>	<u>98,550</u>
Total	<u>\$ 468,340</u>	<u>\$ 468,637</u>

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

Debt Administration

As of June 30, 2010, the ESC has long-term liabilities for sick leave and vacation liabilities. See Note 9 to the basic financial statements for additional information on the ESC's long-term liabilities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Current Financial Related Activities

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

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, 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 David Denbow, Treasurer, Tri-County ESC, 741 Winkler Drive, Wooster, Ohio 44691, calling 330-345-6771.

**BASIC
FINANCIAL STATEMENTS**

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

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government Governmental Activities	Component Unit Ashland County Community Academy
Assets:		
Equity in pooled cash and investments.	\$ 2,032,142	\$ 52,673
Cash with fiscal agent	1,578,134	-
Receivables:		
Accounts.	1,284	-
Intergovernmental	1,196,215	11,715
Accrued interest.	1,624	-
Prepayments	39,307	2,391
Capital assets:		
Land.	77,981	-
Depreciable capital assets, net.	390,359	101,379
Total capital assets, net	<u>468,340</u>	<u>101,379</u>
Total assets.	<u>5,317,046</u>	<u>168,158</u>
Liabilities:		
Accounts payable.	151,816	11,022
Accrued wages and benefits	1,068,184	-
Pension obligation payable.	168,537	-
Intergovernmental payable	63,888	1,121
Claims payable.	37,095	-
Unearned revenue	57,402	-
Long-term liabilities:		
Due within one year.	240,746	-
Due within more than one year	<u>221,071</u>	<u>-</u>
Total liabilities	<u>2,008,739</u>	<u>12,143</u>
Net Assets:		
Invested in capital assets.	468,340	101,379
Restricted for:		
Locally funded programs	13,835	-
State funded programs.	11,392	2,567
Federally funded programs	141,646	34,325
Unrestricted	<u>2,673,094</u>	<u>17,744</u>
Total net assets	<u>\$ 3,308,307</u>	<u>\$ 156,015</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service and Sales	Operating Grants and Contributions	Primary Government Activities	Component Unit
				Governmental Activities	Ashland County Community Academy
Governmental activities:					
Instruction:					
Regular	\$ 901,128	\$ 523,218	\$ 198,825	\$ (179,085)	\$ -
Special	1,584,514	1,065,865	157,005	(361,644)	-
Adult/continuing.	60,375	45,115	-	(15,260)	-
Support services:					
Pupil.	2,598,182	1,904,821	72,948	(620,413)	-
Instructional staff	3,312,825	1,871,330	689,636	(751,859)	-
Board of education	51,385	67,647	-	16,262	-
Administration.	500,875	282,327	145,857	(72,691)	-
Fiscal.	316,097	246,847	7,707	(61,543)	-
Business.	166,290	125,345	-	(40,945)	-
Operations and maintenance	207,579	147,618	-	(59,961)	-
Pupil transportation.	30,879	20,460	3,798	(6,621)	-
Central	1,498,791	1,108,635	4,213	(385,943)	-
Operation of non-instructional services.	3,433,115	2,534,181	1,649,595	750,661	-
Total primary government	\$ 14,662,035	\$ 9,943,409	\$ 2,929,584	(1,789,042)	-
Component Unit:					
Ashland County Community Academy.	\$ 794,351	\$ 34,125	\$ 219,146	-	(541,080)
General Revenues:					
Grants and entitlements not restricted to specific programs				1,635,227	587,512
to specific programs				47,976	-
Investment earnings				19,633	-
Miscellaneous					
Total general revenues				1,702,836	587,512
Change in net assets				(86,206)	46,432
Net assets at beginning of year.				3,394,513	109,583
Net assets at end of year				\$ 3,308,307	\$ 156,015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Miscellaneous		Other		Total
	General	Federal Grants	Governmental Funds		Governmental Funds
Assets:					
Equity in pooled cash and investments.	\$ 1,828,063	\$ 154,136	\$ 49,943	\$	2,032,142
Receivables:					
Accounts.	1,284	-	-		1,284
Intergovernmental.	985,831	198,877	11,507		1,196,215
Accrued interest.	1,624	-	-		1,624
Interfund loans.	110,000	-	-		110,000
Prepayments.	38,094	1,213	-		39,307
 Total assets	 <u>\$ 2,964,896</u>	 <u>\$ 354,226</u>	 <u>\$ 61,450</u>	 <u>\$</u>	 <u>3,380,572</u>
Liabilities:					
Accounts payable.	\$ 71,774	\$ 79,512	\$ 530	\$	151,816
Accrued wages and benefits.	1,026,738	23,397	18,049		1,068,184
Compensated absences payable.	15,944	-	-		15,944
Pension obligation payable.	158,211	7,126	3,200		168,537
Intergovernmental payable.	59,444	1,351	3,093		63,888
Interfund loans payable.	-	110,000	-		110,000
Deferred revenue.	190,530	164,549	8,922		364,001
Unearned revenue.	13,930	-	43,472		57,402
 Total liabilities.	 <u>1,536,571</u>	 <u>385,935</u>	 <u>77,266</u>	 <u>\$</u>	 <u>1,999,772</u>
Fund Balances:					
Reserved for encumbrances.	146,302	53,200	10,237		209,739
Reserved for prepayments.	38,094	1,213	-		39,307
Unreserved, undesignated, (deficits) reported in:					
General fund.	1,243,929	-	-		1,243,929
Special revenue funds.	-	(86,122)	(26,053)		(112,175)
 Total fund balances (deficits).	 <u>1,428,325</u>	 <u>(31,709)</u>	 <u>(15,816)</u>	 <u>\$</u>	 <u>1,380,800</u>
 Total liabilities and fund balances	 <u>\$ 2,964,896</u>	 <u>\$ 354,226</u>	 <u>\$ 61,450</u>	 <u>\$</u>	 <u>3,380,572</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total governmental fund balances	\$ 1,380,800
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Amounts reported for governmental activities on the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	468,340
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
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Intergovernmental receivable	\$ 173,471
Services provided to other entities receivable	183,037
Tuition receivable	<u>7,493</u>

Total	364,001
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Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(445,873)
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An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.	<u>1,541,039</u>
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Net assets of governmental activities	<u>\$ 3,308,307</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Miscellaneous General	Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Services provided to other entities	\$ 8,084,323	\$ -	\$ -	\$ 8,084,323
Tuition.	1,750,062	-	-	1,750,062
Earnings on investments	37,942	-	-	37,942
Other local revenues	48,883	-	-	48,883
Intergovernmental - Intermediate	4,770	-	95,008	99,778
Intergovernmental - State	3,199,902	-	85,032	3,284,934
Intergovernmental - Federal	-	745,853	332,186	1,078,039
Total revenue	<u>13,125,882</u>	<u>745,853</u>	<u>512,226</u>	<u>14,383,961</u>
Expenditures:				
Current:				
Instruction:				
Regular.	706,438	126,167	65,289	897,894
Special	1,444,264	-	167,654	1,611,918
Adult/continuing	60,375	-	-	60,375
Support services:				
Pupil	2,577,287	378	77,467	2,655,132
Instructional staff	2,519,306	547,721	255,885	3,322,912
Board of education	51,385	-	-	51,385
Administration	378,258	127,775	8,120	514,153
Fiscal	331,167	7,098	-	338,265
Business.	168,020	-	-	168,020
Operations and maintenance	198,825	-	-	198,825
Pupil transportation	27,381	3,498	-	30,879
Central	1,498,031	3,880	-	1,501,911
Operation of non-instructional services.	<u>3,430,293</u>	<u>5,010</u>	<u>-</u>	<u>3,435,303</u>
Total expenditures	<u>13,391,030</u>	<u>821,527</u>	<u>574,415</u>	<u>14,786,972</u>
Net change in fund balances	(265,148)	(75,674)	(62,189)	(403,011)
Fund balances at beginning of year	1,693,473	43,965	46,373	1,783,811
Fund balances (deficits) at end of year	\$ 1,428,325	\$ (31,709)	\$ (15,816)	\$ 1,380,800

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE 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, 2010

Net change in fund balances - total governmental funds	\$ (403,011)
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Amounts reported for governmental activities in the statement of activities are different because:

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 exceed depreciation expense in the current period.

Capital asset additions	\$ 30,700
Current year depreciation	<u>(30,319)</u>
Total	381

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(678)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Intergovernmental revenue	102,060
Services provided to other entities revenue	72,281
Tuition revenue	7,493
Accrued interest revenue	<u>(22,330)</u>
Total	159,504

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.

(1,385)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

158,983

Change in net assets of governmental activities	\$ (86,206)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash with fiscal agent	\$ 1,578,134
Total assets	<u>1,578,134</u>
Liabilities:	
Claims payable	<u>37,095</u>
Total liabilities	<u>37,095</u>
Net assets:	
Unrestricted.	<u>1,541,039</u>
Total net assets	<u>\$ 1,541,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,761,565
Miscellaneous.	<u>7,575</u>
Total operating revenues	<u>1,769,140</u>
Operating expenses:	
Purchased services.	526,974
Claims	<u>1,115,547</u>
Total operating expenses.	<u>1,642,521</u>
Operating income	<u>126,619</u>
Nonoperating revenues:	
Interest revenue	<u>32,364</u>
Total nonoperating revenues.	<u>32,364</u>
Change in net assets.	158,983
Net assets at beginning of year	<u>1,382,056</u>
Net assets at end of year	<u>\$ 1,541,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services.	\$ 1,761,565
Cash received from other sources	7,575
Cash payments for claims.	(1,139,189)
Cash payments for goods and services	<u>(526,974)</u>
Net cash provided by operating activities	<u>102,977</u>
Cash flows from investing activities:	
Interest received	<u>32,364</u>
Net cash provided by investing activities	<u>32,364</u>
Net increase in cash and cash equivalents	135,341
Cash and cash equivalents at beginning of year . . .	1,442,793
Cash and cash equivalents at end of year	<u>\$ 1,578,134</u>
Operating income	\$ 126,619
Changes in assets and liabilities:	
Increase in claims payable	<u>(23,642)</u>
Net cash provided by operating activities	<u>\$ 102,977</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010**

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments.	\$ 10,806
Total assets.	<u>\$ 10,806</u>
Liabilities:	
Undistributed monies	\$ 10,806
Total liabilities	<u>\$ 10,806</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Tri-County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is an ESC as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne, Medina and Ashland Counties. The Board controls the ESC's instructional support services staffed by 121 non-certified and 154 certified teaching personnel who provide services to 29,771 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; 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 in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has one component unit.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

The following organizations are described due to their relationship to the ESC:

DISCRETELY PRESENTED COMPONENT UNIT

Ashland County Community Academy (ACCA)

ACCA is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. ACCA is a conversion school alternative educational program for academically at-risk area high school age students, including but not limited to special needs students. ACCA is governed by a Board of Directors. ACCA's Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. Based on the significant services provided by the ESC to ACCA, ACCA's purpose of servicing the students within the ESC's service area, and the relationship between the Governing Board of the ESC and the Board of Directors of ACCA, ACCA is reflected as a component unit of the ESC. Separately issued financial statements can be obtained from the Treasurer of the ACCA at 2011 S. Baney Road, Ashland, Ohio 44805.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the ACCA component unit can be found in Note 16 to these basic financial statements.

JOINTLY GOVERNED ORGANIZATIONS

The Tri-County Computer Service Association (TCCSA) - TCCSA is a jointly governed organization comprised of 21 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based on per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Midland Council of Governments, 2125B Eagle Pass, Wooster, Ohio 44691.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program. Refer to Note 11 for further information on the GRP.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Schools of Ohio Risk Sharing Authority Board

The ESC also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the ESC's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Claims Servicing Pool

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Miscellaneous federal grants fund - The miscellaneous federal grants fund is a fund used to account for various monies received through state agencies from the federal government which are not classified elsewhere.

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

PROPRIETARY FUNDS

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC has one agency fund which accounts for Medicaid administrative claims.

C. Basis of Presentation

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

D. Measurement Focus

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

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

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

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

E. 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

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

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

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

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

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

F. Budgetary Data

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

G. Cash and Cash Equivalents

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

The ESC is self insured through the OME-RESA claims servicing pool. OME-RESA is fiscal agent for the pool and the portion of the cash balance held by OME-RESA and attributable to the ESC is presented as "cash with fiscal agent" on the financial statements.

During fiscal year 2010, investments were limited to repurchase agreements, negotiable and non-negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio ("STAR Ohio"). Except for nonparticipating investment contracts, such as repurchase agreements and non-negotiable certificates of deposit, investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2010, the general fund received interest earned in the amount of \$37,942. The general fund interest includes approximately \$16,613 assigned from other ESC 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. Investments with an initial maturity of more than three months which are not purchased from the cash management pool are reported as investments.

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

H. Capital Assets

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

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

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

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

<u>Description</u>	<u>Governmental Activities</u>	<u>Estimated Lives</u>
Land improvements	30 years	
Building and improvements	20 - 75 years	
Furniture and equipment	7 - 15 years	

I. 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.

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other government.

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

M. Fund Balance Reserves

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

Q. 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 ESC and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2010.

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

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the ESC has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”, GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, and GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the ESC.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the ESC.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficits</u>
Miscellaneous federal grants	\$ 31,709
<u>Nonmajor funds</u>	
Public school preschool	6,953
Alternative schools	783
IDEA preschool grant for the handicapped	34,824

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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

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

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

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

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash With Fiscal Agent

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2010, was \$1,578,134.

B. Cash on Hand

At fiscal year end, the ESC had \$525 in undeposited cash on hand which is included on the financial statements of the ESC as part of "equity in pooled cash and cash equivalents".

C. Deposits

At June 30, 2010, the carrying amount of all ESC deposits was \$573,872, exclusive of the \$520,000 repurchase agreement, included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$250,000 of the ESC's bank balance of \$711,121 was exposed to custodial risk as discussed below, while \$461,121 was covered by the FDIC.

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. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

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

D. Investments

As of June 30, 2010, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturity	
		6 months or less	
Negotiable certificates of deposit	\$ 99,000	\$ 99,000	
Repurchase agreement	520,000	520,000	
STAR Ohio	849,551	849,551	
Total	<u>\$ 1,468,551</u>	<u>\$ 1,468,551</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: The ESC's investments in the federal agency securities that underlie the ESC's repurchase agreement were rated Aaa by Moody's Investor Services. Standard & Poor's has assigned STAR Ohio an AAAm money market rating. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The negotiable certificates of deposit are covered by the FDIC. Of the ESC's \$520,000 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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, 2010:

Investment type	Fair Value	% of Total
Negotiable certificates of deposit	\$ 99,000	6.74
Repurchase agreement	520,000	35.41
STAR Ohio	849,551	57.85
Total	<u>\$ 1,468,551</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)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 573,872
Investments	1,468,551
Cash with fiscal agent	1,578,134
Cash on hand	<u>525</u>
Total	<u>\$ 3,621,082</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,610,276
Agency fund	<u>10,806</u>
Total	<u>\$ 3,621,082</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances consisted of the following at June 30, 2010, as reported as interfund loans receivable/payable on the governmental fund statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Miscellaneous federal grants fund	\$ 110,000

The primary purpose of the interfund balances is to cover the costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of accounts (charges for individual tuition or other services), intergovernmental (billings to school districts for user charged services) and accrued interest. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 1,284
Intergovernmental	1,196,215
Accrued interest	<u>1,624</u>
Total	<u>\$ 1,199,123</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - RECEIVABLES - (Continued)

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

NOTE 7 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State's foundation program.

Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation.

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

NOTE 8 - CAPITAL ASSETS

An adjustment to the June 30, 2009 accumulated depreciation balance was made between buildings and improvements and furniture and equipment in the amount of \$8,970 to properly state the balances. This adjustment had no effect on net assets at July 1, 2009. Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 06/30/09	Additions	Deductions	Balance 06/30/10
Govermental activities:				
Land	\$ 77,981	\$ -	\$ -	\$ 77,981
Total capital assets, not being depreciated	<u>77,981</u>	<u>-</u>	<u>-</u>	<u>77,981</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	376,101	-	-	376,101
Furniture and equipment	<u>299,966</u>	<u>30,700</u>	<u>(17,941)</u>	<u>312,725</u>
Total capital assets, being depreciated	<u>676,067</u>	<u>30,700</u>	<u>(17,941)</u>	<u>688,826</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(83,995)	(11,353)	-	(95,348)
Furniture and equipment	<u>(201,416)</u>	<u>(18,966)</u>	<u>17,263</u>	<u>(203,119)</u>
Total accumulated depreciation	<u>(285,411)</u>	<u>(30,319)</u>	<u>17,263</u>	<u>(298,467)</u>
Governmental activities capital assets, net	<u>\$ 468,637</u>	<u>\$ 381</u>	<u>\$ (678)</u>	<u>\$ 468,340</u>

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NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 476
<u>Support services:</u>	
Pupil	4,245
Instructional staff	5,414
Administration	186
Fiscal	956
Business	556
Operation and maintenance	15,136
Central	763
Operation of non-instructional services	<u>2,587</u>
Total depreciation expense	<u>\$ 30,319</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/10</u>	<u>Amounts Due in One Year</u>
Compensated absences	<u>\$ 463,540</u>	<u>\$ 287,544</u>	<u>\$ (289,267)</u>	<u>\$ 461,817</u>	<u>\$ 240,746</u>
Total	<u>\$ 463,540</u>	<u>\$ 287,544</u>	<u>\$ (289,267)</u>	<u>\$ 461,817</u>	<u>\$ 240,746</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the general fund.

NOTE 10 - OPERATING LEASE

The ESC entered into a lease agreement on behalf of ACCA on July 14, 2008 with Ashland Station, Inc. to lease classroom space located at the Ashland Square Shopping Center. The agreement was amended on November 11, 2009 to lease additional space. The amended lease began on January 1, 2010 and ends on September 30, 2011, at a rate of \$3,000 per month. The ESC charges back ACCA for the lease payments incurred on its behalf.

NOTE 11 - RISK MANAGEMENT

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2010, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - RISK MANAGEMENT - (Continued)

General liability coverage is \$7,000,000 annual aggregate/\$5,000,000 single occurrence limit and no deductible. Willis Risk Solutions is the actuary and reinsurance broker. Property coverage is provided by the pool and reinsurer Travelers Insurance Company and includes coverage for crime, employee dishonesty and inland marine. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no reduction in coverage of the prior year.

For fiscal year 2010, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESCs is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school ESCs within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school ESCs that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

The claims liability of \$37,095 reported in the internal service fund at June 30, 2010 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2010	\$ 60,737	\$ 1,115,547	\$ (1,139,189)	\$ 37,095
2009	86,954	1,360,185	(1,386,402)	60,737

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from governing board policies and State laws. Employees earn 10 to 25 days of vacation per year, depending upon length of service and number of days worked per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

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NOTE 12 - EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to full-time employees through MetLife; coverage amount is \$38,000 per employee, with the exception of the Superintendent and Treasurer, coverage is \$100,000.

NOTE 13 - CONTINGENCIES

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2010.

B. Litigation

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

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current 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 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$316,056, \$233,507 and \$219,809, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, 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 recommendations 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 STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$794,240, \$780,807 and \$781,806, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$10,909 made by the ESC and \$7,792 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$49,665, \$141,073 and \$139,151, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$18,795, \$19,266 and \$15,838, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$61,095, \$60,062 and \$60,139, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY

The Ashland County Community Academy ("ACCA") is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314.02 and 3314.03 to develop a conversion school alternative educational program for academically at-risk area high school age students, including but not limited to special needs students. ACCA, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. ACCA may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of ACCA. Management is not aware of any course of action or series of events that have occurred that might adversely affect ACCA's tax-exempt status. ACCA is considered a component unit of the ESC for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

On July 8, 2008, the ESC accepted sponsorship of ACCA. ACCA became established as a non-profit corporation on January 20, 2009 and was approved under a five year contract with the ESC commencing June 23, 2009 through June 30, 2014. The ESC is responsible for evaluating the performance of ACCA and has the authority to deny renewal of the contract at its expiration. The Board of Directors is responsible for the operations of ACCA.

ACCA operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards and admission standards.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY - (Continued)

A. Summary of Significant Accounting Policies

The basic financial statements (BFS) of ACCA 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. ACCA also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The FASB codified its standards and the standards issued prior to November 30, 1989 are included in the codification. ACCA has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. ACCA's significant accounting policies are described below.

Basis of Presentation - ACCA's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. ACCA's basic financial statements are prepared using the accrual basis of accounting.

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.

Nonexchange transactions, in which ACCA 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 ACCA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to ACCA on a reimbursement basis.

Expenses are recognized at the time that they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in ACCA's contract with the ESC.

Cash - All monies received by ACCA are deposited in a demand deposit account.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY - (Continued)

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market value on the date donated. ACCA maintains a capitalization threshold of \$1,000. ACCA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over 5-15 years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for federally funded programs.

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

Prepayments - Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

Intergovernmental Revenue - ACCA currently participates in the State foundation program through the Ohio Department of Education, along with revenues from programs such as the Management Information System, Education Stabilization Fund, Stimulus Title II, Title I, Drug Free School, Improving Teacher Quality and the Federal Start Up programs. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year. Amounts awarded under State foundation program for the 2010 school year excluding federal and State grants totaled \$587,512.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 ACCA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to ACCA on a reimbursement basis. State and Federal grant revenue for the fiscal year ended June 30, 2010 was \$219,006.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of ACCA. Operating expenses are necessary costs incurred to provide the service that is the primary activity of ACCA. All revenues and expenses not meeting this definition are reported as non-operating.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY - (Continued)

Change in Accounting Principles - For fiscal year 2010, ACCA has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”, GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, and GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of ACCA.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of ACCA.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of ACCA.

B. Deposits

At June 30, 2010, the carrying amount of ACCA’s deposits was \$52,673. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2010, ACCA’s entire bank balance of \$67,151 was covered by the Federal Deposit Insurance Corporation (the “FDIC”).

C. Receivables

Receivables at June 30, 2010, consisted of intergovernmental receivables arising from grants and entitlements and accounts receivable. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	Amount
Title I	\$ 3,130
Improving Teacher Quality	1,158
Drug Free School Grant	126
Stimulus Title II	216
Services provided to other entities	<u>7,085</u>
Total intergovernmental receivables	<u><u>\$ 11,715</u></u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY - (Continued)

D. Capital Assets

Capital asset activity for fiscal year ended June 30, 2010 was as follows:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2010</u>
Furniture and equipment	\$ 53,856	\$ 21,500	\$ -	\$ 75,356
Lease-hold improvements	18,380	37,390	-	55,770
Less: accumulated depreciation	(6,621)	(23,126)	-	(29,747)
Capital assets, net	<u>\$ 65,615</u>	<u>\$ 35,764</u>	<u>\$ -</u>	<u>\$ 101,379</u>

E. Risk Management

ACCA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For the period January 20, 2010 through June 30, 2010, ACCA was named on the ESC's policy for property and general liability insurance.

F. Contracts

Sponsor Contract - ACCA has entered into a five-year contract commencing on June 23, 2009 and continuing through June 30, 2014 with the ESC for its establishment. The ESC shall carry out the responsibilities established by law, including:

- Attend training sessions as required by the Ohio Department of Education (ODE) and assure that technical assistance is provided to ACCA.
- Verify by a site visit prior to ACCA's opening for instruction whether ACCA complies with all requirements.
- Monitor ACCA's compliance with the Contract with the ESC and the laws applicable to ACCA.
- Monitor and evaluate the academic and fiscal performance and the organization and operation of ACCA as well as the legal compliance of ACCA.
- Provide technical assistance to ACCA.
- Comply with the financial reporting requirements as established by ODE and in accordance with applicable accounting standards as prescribed by all applicable sections of the Ohio Revised Code.
- As permitted by law, intervene in ACCA's operation to correct problems in the ACCAs overall performance, declare the ACCA to be on probationary status pursuant to Ohio Revised Code Section 3314.073, suspend operation of ACCA pursuant to Ohio Revised Code Section 3314.072, or terminate or non renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the ESC.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - ASHLAND COUNTY COMMUNITY ACADEMY - (Continued)

- Establish a written plan of action to be undertaken in the event that ACCA experiences financial difficulties or closes before the end of the school year.

Service Contract - ACCA and the ESC have entered into a Special Services Contract commencing July 1, 2009 through June 30, 2010. The ESC shall serve as fiscal agent and pay all local expenses involved in ACCA programs including salary, fringe benefits, transportation allowance, office expenses, meeting expenses, supplies and equipment. In addition, the ESC shall pay other costs incurred in the operation of the programs including but not limited to: employment of staff as required by ACCA, complete payroll services and daily fiscal policies and procedures, health insurance, work study, and accounting services. For the fiscal year ended June 30, 2010, ACCA paid the ESC \$556,970 for services under the contract.

G. Contingencies

Grants - ACCA received financial assistance from federal and State agencies in the form of grants. The expenditure 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ACCA at June 30, 2010.

Litigation - ACCA is not involved in any other litigation that, in the opinion of management, would have a material effect of the financial statements.

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. ACCA has not been reviewed as of June 30, 2010. ACCA does not anticipate any significant adjustments to State funding for fiscal year 2010, as a result of the reviews which have yet to be completed.

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources:				
Services provided to other entities	\$ 9,188,986	\$ 9,188,986	\$ 7,770,524	\$ (1,418,462)
Tuition.	1,820,567	1,820,567	1,806,232	(14,335)
Earnings on investments	57,000	57,000	36,699	(20,301)
Other local revenues	8,600	8,600	33,286	24,686
Intergovernmental - Intermediate	25,000	25,000	4,770	(20,230)
Intergovernmental - State	3,208,308	3,214,387	3,199,902	(14,485)
Total revenue	<u>14,308,461</u>	<u>14,314,540</u>	<u>12,851,413</u>	<u>(1,463,127)</u>
Expenditures:				
Current:				
Instruction:				
Regular	908,972	952,572	869,982	82,590
Special.	1,509,459	1,526,459	1,419,307	107,152
Adult/continuing	145,485	145,485	60,832	84,653
Support services:				
Pupil.	2,600,015	2,702,225	2,639,409	62,816
Instructional staff	4,866,697	3,064,238	2,473,894	590,344
Board of education	53,665	58,665	43,896	14,769
Administration.	537,184	537,424	398,125	139,299
Fiscal	385,790	388,590	337,480	51,110
Business	180,940	183,040	170,035	13,005
Operations and maintenance.	224,446	224,646	200,926	23,720
Central.	1,841,677	1,491,027	1,465,669	25,358
Operation of non-instructional services	<u>3,548,891</u>	<u>3,575,471</u>	<u>3,484,680</u>	<u>90,791</u>
Total expenditures	<u>16,803,221</u>	<u>14,849,842</u>	<u>13,564,235</u>	<u>1,285,607</u>
Excess of expenditures over revenues.	<u>(2,494,760)</u>	<u>(535,302)</u>	<u>(712,822)</u>	<u>(177,520)</u>
Other financing sources (uses):				
Refund of prior year expenditures	-	-	15,748	15,748
Refund of prior year receipts.	-	(60,000)	(60,000)	-
Advances (out)	-	(110,000)	(110,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(170,000)</u>	<u>(154,252)</u>	<u>15,748</u>
Net change in fund balance	<u>(2,494,760)</u>	<u>(705,302)</u>	<u>(867,074)</u>	<u>(161,772)</u>
Fund balance at beginning of year	2,195,244	2,195,244	2,195,244	-
Prior year encumbrances appropriated	299,516	299,516	299,516	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ 1,789,458</u>	<u>\$ 1,627,686</u>	<u>\$ (161,772)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental - Federal	\$ 1,159,615	\$ 1,159,615	\$ 750,250	\$ (409,365)
Total revenue	1,159,615	1,159,615	750,250	(409,365)
Expenditures:				
Current:				
Instruction:				
Regular	158,245	162,434	127,349	35,085
Support services:				
Pupil.	313	733	581	152
Instructional staff	823,937	819,806	591,070	228,736
Administration.	181,720	179,872	132,854	47,018
Fiscal	8,789	8,789	7,098	1,691
Pupil transportation	10,560	9,525	3,614	5,911
Operation of non-instructional services	7,645	7,655	5,010	2,645
Total expenditures	1,191,209	1,188,814	867,576	321,238
Excess of expenditures over revenues.	(31,594)	(29,199)	(117,326)	(88,127)
Other financing sources (uses):				
Refund of prior year receipts.	-	(2,395)	(2,395)	-
Advances in.	-	-	110,000	110,000
Total other financing sources (uses)	-	(2,395)	107,605	110,000
Net change in fund balance	(31,594)	(31,594)	(9,721)	21,873
Fund balance at beginning of year	28,395	28,395	28,395	-
Prior year encumbrances appropriated	3,199	3,199	3,199	-
Fund balance at end of year	\$ -	\$ -	\$ 21,873	\$ 21,873

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budget basis) - for the general fund and miscellaneous federal grants fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

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

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**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis schedules for the general fund and the miscellaneous federal grants fund:

	<u>General</u>	<u>Miscellaneous Federal Grants</u>
Budget basis	\$ (867,074)	\$ (9,721)
Net adjustment for revenue accruals	274,469	(4,397)
Net adjustment for expenditure accruals	(27,172)	(86,214)
Net adjustment for other sources/(uses)	154,252	(107,605)
Adjustment for encumbrances	<u>200,377</u>	<u>132,263</u>
GAAP basis	<u><u>\$ (265,148)</u></u>	<u><u>\$ (75,674)</u></u>

TRI-COUNTY EDUCATIONAL SERVICE CENTER

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Audit Report Letters

June 30, 2010

TRI-COUNTY EDUCATIONAL SERVICE CENTER

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January 31, 2011

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Tri-County Educational Service Center (the Service Center) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Service Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Tri-County Educational Service Center
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*
Page 2

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the Service Center in a separate letter dated January 31, 2011.

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

Rea & Associates, Inc.



January 31, 2011

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Tri-County Educational Service Center (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Tri-County Educational Service Center
Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and Internal Control Over Compliance in Accordance
With OMB Circular A-133

Page 2

Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Service Center as of and for the year ended June 30, 2010, and have issued our report thereon dated January 31, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the Service Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Governing Board, management, 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.

Rea & Associates, Inc.

TRI-COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
U. S. Department of Education				
<i>(Passed through the Ohio Department of Education)</i>				
<i>Special Education Cluster</i>				
Preschool Grant	84.173	2009	\$ 0	\$ 13,217
Preschool Grant	84.173	2010	170,979	164,395
ARRA-Preschool Grant	84.392	2010	146,833	137,263
Parent-Mentor Program	84.027	2009/2010	17,969	18,667
Total Special Education Cluster			335,781	333,542
SIG Implementation Grant	84.377A	2010	1,800	1,800
<i>Title III</i>				
Title III	84.365	2009	5,417	7,029
Title III	84.365	2010	52,429	42,572
Total Title III			57,846	49,601
<i>21st Century Grant</i>				
21st Century Learning (Shreve and West Holmes)	84.287	2009	0	13,626
21st Century Learning (Ashland and Wooster)	84.287	2009	268	17,904
21st Century Learning (Ashland and Wooster)	84.287	2010	193,497	187,031
21st Century Learning (ACCA and Parkview)	84.287	2010	181,862	155,701
21st Century Learning	84.287	2010	100,313	88,804
Total 21st Century Learning			475,940	463,066
Advanced Placement Program	84.330	2010	657	657
<i>(Passed through the Ashland County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2009/2010	63,607	38,590
ARRA - IDEA Part C - Help Me Grow Program	84.393A	2010	27,801	30,775
Total Special Education for Infants and Families Cluster			91,408	69,365
<i>(Passed through the Wayne County Family & Children First Council)</i>				
<i>Special Education for Infants and Families Cluster</i>				
IDEA Part C - Help Me Grow Program	84.181	2010	82,192	93,211
ARRA - IDEA Part C - Help Me Grow Program	84.393A	2010	60,949	65,166
Total Special Education for Infants and Families Cluster			143,141	158,377
Memo subtotal - Special Ed. for Infants & Families (non-ARRA)	84.181	2009/2010	145,799	131,801
Memo subtotal - ARRA Special Ed. for Infants & Families	84.393A	2009/2010	88,750	95,941
<i>Received directly from the U.S. Department of Education</i>				
Teaching American History Grant	84.215X	2010	165,084	165,084
Bullying Prevention Training Program	84.215K	2010	107,694	107,759
Total U.S. Department of Education			1,379,351	1,349,251
U.S. Department of Labor				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act</i>				
WIA Youth Transitions Program	17.259	2010	133,272	151,247
ARRA - WIA Youth Transitions Program	17.259	2010	127,208	127,465
Subtotal			260,480	278,712
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
<i>Workforce Investment Act</i>				
WIA Youth Transitions Program	17.259	2009/2010	162,856	166,203
ARRA - WIA Youth Transitions Program	17.259	2009/2010	280,009	260,449
Subtotal			442,865	426,652
Memo subtotal - WIA Youth Transitions Program (Non-ARRA)	17.259	2009/2010	296,128	317,450
Memo subtotal - ARRA WIA Youth Transitions Program	17.259	2009/2010	407,217	387,914
Total Workforce Investment Act			703,345	705,364
Total U.S. Department of Labor			703,345	705,364
U.S. Department of Health & Human Services				
<i>(Passed through the Ashland County Dept. of Job & Family Services)</i>				
TANF Child Literacy Program	93.558	2009/2010	217,429	209,407
<i>(Passed through the Wayne County Dept. of Job & Family Services)</i>				
TANF Transitions Program	93.558	2009/2010	48,653	36,561
Total - TANF	93.558	2009/2010	266,082	245,968
Total U.S. Department of Health & Human Services			266,082	245,968
Total Federal Assistance			\$ 2,348,778	\$ 2,300,583

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

*Notes to the Schedule of Expenditures Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2010*

Note A – Significant Accounting Policies

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

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster #84.027, 84.173, 84.392 IDEA Part C Cluster #84.181, 84.393A WIA Youth Cluster #17.259 TANF #93.558
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted



Dave Yost • Auditor of State

TRI-COUNTY EDUCATIONAL SERVICE CENTER

WAYNE COUNTY

CLERK'S CERTIFICATION

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

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED
MARCH 31, 2011