



**Auditor of State**  
**Betty Montgomery**



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

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Tuscarawas County, as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Notes 2 and 7 in the general-purpose financial statement, as a result of a change in threshold fixed assets in the General Fixed Assets Account Group were restated at July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole

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

**Betty Montgomery**  
Auditor of State

October 31, 2003

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

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003**

	Governmental Fund Types		Fiduciary Fund Type
	General	Special Revenue	Agency
<b>ASSETS AND OTHER DEBITS</b>			
<b>ASSETS:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 754,566	\$ 179,155	\$ 121,304
Receivables (net of allowances of uncollectibles):			
Accounts . . . . .	193,069	-	-
Intergovernmental . . . . .	-	33,169	-
Property, plant and equipment (net of accumulated depreciation where applicable). . . . .	-	-	-
<b>OTHER DEBITS:</b>			
Amount to be provided for retirement of general long-term obligations . . . . .	-	-	-
<b>Total assets and other debits . . . . .</b>	<b>\$ 947,635</b>	<b>\$ 212,324</b>	<b>\$ 121,304</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
<b>LIABILITIES:</b>			
Accounts payable . . . . .	\$ 549	\$ -	\$ -
Accrued wages and benefits. . . . .	509,706	5,535	-
Compensated absences payable. . . . .	8,229	-	-
Pension obligation payable . . . . .	67,967	775	-
Intergovernmental payable . . . . .	28,271	1,137	-
Deferred revenue . . . . .	-	5,016	-
Obligation under lease-purchase agreement . . . . .	-	-	-
Undistributed monies . . . . .	-	-	121,304
<b>Total liabilities. . . . .</b>	<b>614,722</b>	<b>12,463</b>	<b>121,304</b>
<b>EQUITY AND OTHER CREDITS:</b>			
Investment in general fixed assets . . . . .	-	-	-
Fund balances:			
Reserved for encumbrances . . . . .	-	154	-
Unreserved-undesignated . . . . .	332,913	199,707	-
<b>Total equity and other credits . . . . .</b>	<b>332,913</b>	<b>199,861</b>	<b>-</b>
<b>Total liabilities, equity and other credits . . . . .</b>	<b>\$ 947,635</b>	<b>\$ 212,324</b>	<b>\$ 121,304</b>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



Account Groups		
General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
\$ -	\$ -	\$ 1,055,025
-	-	193,069
-	-	33,169
2,041,202	-	2,041,202
<u>-</u>	<u>1,325,740</u>	<u>1,325,740</u>
<u>\$ 2,041,202</u>	<u>\$ 1,325,740</u>	<u>\$ 4,648,205</u>
\$ -	\$ -	\$ 549
-	-	515,241
-	165,158	173,387
-	-	68,742
-	21,141	50,549
-	-	5,016
-	1,139,441	1,139,441
<u>-</u>	<u>-</u>	<u>121,304</u>
<u>-</u>	<u>1,325,740</u>	<u>2,074,229</u>
2,041,202	-	2,041,202
-	-	154
<u>-</u>	<u>-</u>	<u>532,620</u>
<u>2,041,202</u>	<u>-</u>	<u>2,573,976</u>
<u>\$ 2,041,202</u>	<u>\$ 1,325,740</u>	<u>\$ 4,648,205</u>

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 24,562	\$ -	\$ -	\$ 24,562
Earnings on investments . . . . .	23,438	-	927	24,365
Customer services . . . . .	3,278,265	74,379	-	3,352,644
Grants from other intermediate sources . . . . .	-	25,408	-	25,408
Intergovernmental - State . . . . .	1,336,660	389,695	-	1,726,355
Intergovernmental - Federal . . . . .	<u>155,670</u>	<u>359,942</u>	<u>-</u>	<u>515,612</u>
 Total revenue. . . . .	 <u>4,818,595</u>	 <u>849,424</u>	 <u>927</u>	 <u>5,668,946</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular. . . . .	139,975	70,949	-	210,924
Special . . . . .	746,710	14,177	-	760,887
Other . . . . .	-	15,744	-	15,744
Support services:				
Pupil . . . . .	1,596,511	5,000	-	1,601,511
Instructional staff. . . . .	1,431,059	496,525	-	1,927,584
Board of Education. . . . .	24,172	-	-	24,172
Administration . . . . .	436,787	15,783	-	452,570
Fiscal. . . . .	164,294	18,430	-	182,724
Business . . . . .	154,337	-	6,595	160,932
Operations and maintenance . . . . .	58,207	47,909	-	106,116
Pupil transportation . . . . .	-	12,290	-	12,290
Central . . . . .	187,274	29,380	-	216,654
Community services. . . . .	-	19,233	27,629	46,862
Facilities acquisition and construction. . . . .	185,106	-	-	185,106
Debt service:				
Principal retirement . . . . .	160,559	-	-	160,559
Interest and fiscal charges . . . . .	<u>59,991</u>	<u>-</u>	<u>-</u>	<u>59,991</u>
 Total expenditures . . . . .	 <u>5,344,982</u>	 <u>745,420</u>	 <u>34,224</u>	 <u>6,124,626</u>
 Excess (deficiency) of revenues over (under) expenditures . . . . .	  (526,387)	  104,004	  (33,297)	  (455,680)
Fund balances, July 1. . . . .	<u>859,300</u>	<u>95,857</u>	<u>33,297</u>	<u>988,454</u>
Fund balances, June 30. . . . .	<u>\$ 332,913</u>	<u>\$ 199,861</u>	<u>\$ -</u>	<u>\$ 532,774</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
From local sources:						
Tuition . . . . .	\$ 24,802	\$ 24,802	\$ -	\$ -	\$ -	\$ -
Earnings on investments . . . . .	23,438	23,438	-	-	-	-
Customer services . . . . .	3,433,700	3,433,700	-	74,379	74,379	-
Grants from other intermediate sources. . . . .	-	-	-	25,408	25,408	-
Intergovernmental - State . . . . .	1,336,660	1,336,660	-	389,695	389,695	-
Intergovernmental - Federal. . . . .	155,670	155,670	-	389,573	356,404	(33,169)
<b>Total revenues. . . . .</b>	<b>4,974,270</b>	<b>4,974,270</b>	<b>-</b>	<b>879,055</b>	<b>845,886</b>	<b>(33,169)</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular . . . . .	143,200	143,200	-	70,949	70,949	-
Special. . . . .	729,746	729,746	-	1,162	1,158	4
Other. . . . .	-	-	-	25,291	15,744	9,547
Support services:						
Pupil. . . . .	1,571,710	1,571,710	-	-	-	-
Instructional staff . . . . .	1,405,317	1,405,317	-	603,698	462,655	141,043
Board of Education . . . . .	24,184	24,184	-	-	-	-
Administration . . . . .	453,055	453,055	-	43,070	26,220	16,850
Fiscal. . . . .	163,302	163,302	-	7,557	7,557	-
Business . . . . .	154,846	154,846	-	-	-	-
Operations and maintenance . . . . .	57,969	57,969	-	68,311	47,909	20,402
Transportation . . . . .	-	-	-	18,216	9,900	8,316
Central. . . . .	201,129	201,129	-	47,174	30,008	17,166
Community services . . . . .	-	-	-	17,595	19,233	(1,638)
Extracurricular activities . . . . .	185,106	185,106	-	-	-	-
Facilities acquisition & construction . . . . .	-	-	-	-	-	-
Debt service:						
Principal retirement . . . . .	160,559	160,559	-	-	-	-
Interet and fiscal charges . . . . .	59,991	59,991	-	-	-	-
<b>Total expenditures . . . . .</b>	<b>5,310,114</b>	<b>5,310,114</b>	<b>-</b>	<b>903,023</b>	<b>691,333</b>	<b>211,690</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(335,844)	(335,844)	-	(23,968)	154,553	178,521
Other financing sources:						
Advances in . . . . .	25,434	25,434	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures . . . . .	(310,410)	(310,410)	-	(23,968)	154,553	178,521
Fund balances, July 1 . . . . .	1,059,776	1,059,776	-	22,525	22,525	-
Prior year encumbrances appropriated . . . . .	200	200	-	1,923	1,923	-
<b>Fund balances, June 30 . . . . .</b>	<b>\$ 749,566</b>	<b>\$ 749,566</b>	<b>\$ -</b>	<b>\$ 480</b>	<b>\$ 179,001</b>	<b>\$ 178,521</b>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 24,802	\$ 24,802	\$ -
1,371	1,371	-	24,809	24,809	-
-	-	-	3,508,079	3,508,079	-
-	-	-	25,408	25,408	-
-	-	-	1,726,355	1,726,355	-
-	-	-	545,243	512,074	(33,169)
<u>1,371</u>	<u>1,371</u>	<u>-</u>	<u>5,854,696</u>	<u>5,821,527</u>	<u>(33,169)</u>
-	-	-	214,149	214,149	-
-	-	-	730,908	730,904	4
-	-	-	25,291	15,744	9,547
-	-	-	1,571,710	1,571,710	-
-	-	-	2,009,015	1,867,972	141,043
-	-	-	24,184	24,184	-
-	-	-	496,125	479,275	16,850
-	-	-	170,859	170,859	-
6,595	6,595	-	161,441	161,441	-
-	-	-	126,280	105,878	20,402
-	-	-	18,216	9,900	8,316
-	-	-	248,303	231,137	17,166
-	-	-	17,595	19,233	(1,638)
-	-	-	185,106	185,106	-
534,077	534,077	-	534,077	534,077	-
-	-	-	160,559	160,559	-
-	-	-	59,991	59,991	-
<u>540,672</u>	<u>540,672</u>	<u>-</u>	<u>6,753,809</u>	<u>6,542,119</u>	<u>211,690</u>
(539,301)	(539,301)	-	(899,113)	(720,592)	178,521
-	-	-	25,434	25,434	-
(539,301)	(539,301)	-	(873,679)	(695,158)	178,521
32,853	32,853	-	1,115,154	1,115,154	-
<u>506,448</u>	<u>506,448</u>	<u>-</u>	<u>508,571</u>	<u>508,571</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 750,046</u>	<u>\$ 928,567</u>	<u>\$ 178,521</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 - DESCRIPTION OF THE ENTITY**

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

The ESC operates under an elected seven-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 87 non-certificated employees and 83 certificated employees to provide services to approximately 13,241 students in 12 districts throughout Tuscarawas, Carroll and Harrison counties.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements (GPFS) 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's significant accounting policies are described below.

**A. The Reporting Entity**

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity." The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the GPFS are not misleading. The primary government of the ESC consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes all funds and activities whose primary purpose is providing necessary services to area school districts.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The ESC is financially accountable for an organization if the ESC's Governing Board 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 organizations's resources; the ESC is legally obligated or has otherwise assumed responsibility to finance the deficits of, or provide financial support to the organization; and the ESC is legally obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC taxes. Based upon the application of these, the ESC has no component units. The following organizations are described due to their relationship with the ESC.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**(Continued)**

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

**JOINTLY GOVERNED ORGANIZATION**

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

OME-RESA is a jointly governed organization created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, an educational management information system, cooperative purchase services, and legal services to member districts. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts. The Jefferson County Educational Service Center office serves as the fiscal agent and receives funding from the State Department of Education. The continued existence of OME-RESA is not dependent on the School District's continued participation and no equity interest exists. OME-RESA has no outstanding debt. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Deborah Campana, who serves as Treasurer, Steubenville, Ohio 43952.

**INSURANCE PURCHASING POOL**

Ohio School Boards Association Workers' Compensation Group Rating Program

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

**RISK SHARING POOL**

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

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

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



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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**(Continued)**

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

**B. Fund Accounting**

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

**GOVERNMENTAL FUNDS**

Governmental funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in fiduciary funds) are accounted for through governmental funds. The following are the ESC's governmental fund types:

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. The general fund balance is available to the ESC for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**FIDUCIARY FUNDS**

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, non-expendable trust, and agency funds. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3 B.

**ACCOUNT GROUPS**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**(Continued)**

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

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for governmental and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is 60 days after the June 30 year-end. "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. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**D. Budgets**

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

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**(Continued)**

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

**D. Budgets (Continued)**

Estimated Resources:

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

Appropriations:

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

Encumbrances:

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

Lapsing of Appropriations:

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

**E. Cash and Investments**

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2003, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

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

**E. Cash and Investments (Continued)**

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$23,438, which includes \$7,600 assigned from other ESC funds.

For purposes of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents.

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

**F. Inventory**

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets. The inventory balance at June 30, 2003, was not material and is not presented on the GPFS.

**G. Fixed Assets and Depreciation**

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC increased its capitalization threshold from \$300 to \$1,500 during fiscal 2003. No depreciation is recognized for assets in the general fixed assets account group. The ESC does not possess any infrastructure.

**H. Compensated Absences**

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

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

**H. Compensated Absences (Continued)**

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**I. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid more than sixty days after year-end are considered not to have been paid with current available financial resources.

**J. Fund Equity**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

**K. Interfund Transactions**

During the course of normal operations, the ESC may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The ESC made no operating transfers during fiscal year 2003.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had no short-term interfund loans receivable and payable at June 30, 2003.

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(Continued)**

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

**K. Interfund Transactions (Continued)**

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 2003.

**L. Pass-Through Grants**

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the county. When the ESC has a financial or administrative role in grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the ESC has no financial or administrative role and are passed-through to other entities and local districts in the county are reported as an agency fund.

**M. Estimates**

The preparation of the GPFS 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.

**N. Memorandum Only - Total Columns**

Total columns on the GPFS are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Deficit Fund Balances**

At June 30, 2003, the ESC had the following individual fund deficit:

<u>Special Revenue Fund</u>	
Excellence/Competency Grant	\$58

The above fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balance in the Excellence/Competency Grant special revenue fund is caused by accruing wage obligations in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)**

**B. Agency Fund**

The following are accruals for the agency fund, which in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Due from other governments	\$355,012

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes require the classification of monies held by the ESC into three categories:

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

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

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the 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.

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the ESC's deposits was \$454,384 and the bank balance was \$790,036. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$690,036 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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



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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment in STAR Ohio	\$600,641	\$600,641

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$1,055,025	\$ -
Investment of the cash management pool:		
Investment in STAR Ohio	<u>(600,641)</u>	<u>600,641</u>
U.S. Government money market		
GASB Statement No. 3	<u>\$ 454,384</u>	<u>\$600,641</u>

**NOTE 5 - STATE FUNDING**

The ESC is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the ESC receives \$47.02 for each of the 13,241 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the ESC's supervision) is apportioned by the State Board of Education among the local school districts to which the ESC provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2003 consisted of accounts (customer services) and intergovernmental grants and entitlements (to the extent eligibility requirements were met by fiscal year-end). All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Accounts	\$193,069
<u>Special Revenue Funds</u>	
Intergovernmental	33,169

**NOTE 7 - FIXED ASSETS**

**A. General Fixed Assets**

The general fixed assets account group has been restated as of July 1, 2002 due to a reappraisal of the fixed assets and an increase in the capitalization threshold from \$300 to \$1,500. These items had the following effect on the fixed asset balances as previously reported.

<u>Asset Category</u>	<u>Balance June 30, 2002</u>	<u>Restatement</u>	<u>Restated Balance July 1, 2002</u>
Land	\$ -	\$ 22,360	\$ 22,360
Land improvements	-	136,247	136,247
Furniture/equipment	485,752	(252,267)	233,485
Construction in progress	<u>1,242,186</u>	<u>-</u>	<u>1,242,186</u>
Totals	<u>\$1,727,938</u>	<u>\$ (71,303)</u>	<u>\$1,634,278</u>

A summary of the changes in the general fixed assets account group during the fiscal year follows:

<u>Asset Category</u>	<u>Restated Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
Land	\$ 22,360	\$ -	\$ -	\$ 22,360
Land improvements	136,247	-	-	136,247
Buildings/improvements	-	1,614,101	-	1,614,101
Furniture/equipment	233,485	35,009	-	268,494
Construction in progress	<u>1,242,186</u>	<u>-</u>	<u>(1,242,186)</u>	<u>-</u>
Total	<u>\$1,634,278</u>	<u>\$1,649,110</u>	<u>\$(1,242,186)</u>	<u>\$2,041,202</u>

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 8 - LEASE - PURCHASE AGREEMENT**

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

During fiscal year 2003, the ESC made principal payments of \$160,559 and interest payments of \$59,991. The principal and interest payments will be recorded as an expenditure in the general fund.

A liability in the amount of the present value of minimum lease payments has been recorded in the general long-term obligations account group. General fixed assets consisting of building improvements have been capitalized in the general fixed assets account group in the amount of \$1,300,000.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30, 2003	Amount
2004	\$ 220,550
2005	220,550
2006	220,550
2007	220,550
2008	220,550
2009 - 2013	220,550
Total	1,323,300
Less: amount representing interest	(183,859)
Present value of minimum lease payments	\$1,139,441

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

In conjunction with the lease-purchase agreement, the ESC entered into an escrow agreement with Bank One Trust Company, N.A. and Banc One Leasing Corporation whereby Bank One Trust Company, N.A. acts as escrow agent for the funds received under the lease-purchase agreement. Under the escrow agreement, the ESC authorizes and directs Banc One Leasing Corporation to make disbursements to pay the project costs from the amount deposited with the escrow agent. The escrow agreement terminates upon termination of the lease-purchase agreement. All funds in the escrow account were disbursed in fiscal 2003. There were no funds remaining in the account at June 30, 2003.

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**NOTE 9 - COMPENSATED ABSENCES**

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a total of 190 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 45 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

**NOTE 10 - LONG-TERM OBLIGATIONS**

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the intergovernmental payable will ultimately be paid from the fund from which the employee is paid. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values.

	<u>Balance</u> <u>July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2003</u>
Compensated absences	\$ 111,112	\$54,046	\$ -	\$ 165,158
Intergovernmental payable	13,850	21,141	(13,850)	21,141
Obligation under lease-purchase agreement	<u>1,300,000</u>	<u>-</u>	<u>(160,559)</u>	<u>1,139,441</u>
Total	<u>\$1,424,962</u>	<u>\$75,187</u>	<u>\$(174,409)</u>	<u>\$1,325,740</u>

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

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 2003, the ESC contracted with Westfield Insurance Company for commercial property insurance with a \$1,300,000 single occurrence limit and a \$500 deductible limit per year.

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

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**NOTE 11 - RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

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

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

**C. Health Care Benefits**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$132,790, \$116,581, and \$112,503, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

**B. State Teachers Retirement System**

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

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

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

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$362,634, \$352,256, and \$236,832, respectively; 100% has been contributed for fiscal year 2003, 2002 and 2001.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$25,902 during fiscal 2003.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$69,147 during the 2003 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:



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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

Excess (Deficiency) of Revenues and Other Financing Sources  
Over/(Under) Expenditures and Other  
Financing Uses

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$(310,410)	\$154,553	\$(539,301)
Net adjustment for revenue accruals	(155,675)	3,538	(444)
Net adjustment for expenditure accruals	(34,868)	(54,241)	506,448
Net adjustment for other financing sources/(uses)	(25,434)	-	-
Encumbrances (budget basis)	<u>-</u>	<u>154</u>	<u>-</u>
GAAP basis	<u>\$(526,387)</u>	<u>\$104,004</u>	<u>\$ (33,297)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2003.

**B. Litigation**

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

**C. State School Funding Decision**

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

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

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

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. Department Of Education</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education-Grants to States	050260-6BS1-2002-P	84.027	\$253,643	\$331,107
	050260-6BS1-2003-P		840,997	785,945
			<u>1,094,640</u>	<u>1,117,052</u>
Special Education-Preschool Grants	050260-PGS3-2002-P	84.173	52,390	58,183
	050260-PGS1-2003-P		56,421	56,267
			<u>108,811</u>	<u>114,450</u>
Total Special Education Cluster			<u>1,203,451</u>	<u>1,231,502</u>
Safe and Drug-Free Schools and Communities - National Programs	050260-T4S1-2003	84.184C	4,390	4,390
Even Start-State Educational Agencies	050260-EVS3-2002	84.213	108,045	121,979
	050260-EVS4-2003		248,359	136,784
			<u>356,404</u>	<u>258,763</u>
Total Even Start-State Educational Agencies			<u>356,404</u>	<u>258,763</u>
Total U.S. Department of Education			1,564,245	1,494,655
<b><u>U.S. Department of Health and Human Services</u></b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Assistance Program - Community Alternative Funding System (CAFS)	FY 03	93.778	155,670	155,670
<i>Passed Through Ohio Department of Job and Family Services:</i>				
<i>Passed Through Tuscarawas County Job and Family Services:</i>				
All for One Literacy Grant	PRC All For One	93.558	17,505	17,505
Total U.S. Department of Health and Human Services			<u>173,175</u>	<u>173,175</u>
<b>Total</b>			<u><u>\$1,737,420</u></u>	<u><u>\$1,667,830</u></u>

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

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

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) 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.

**NOTE B – MEDICAL ASSISTANCE PROGRAM**

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



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the general purpose financial statements of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (Educational Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003, in which we noted the Educational Service Center changed its fixed asset capitalization threshold. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

However, we did note other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated October 31, 2003.

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

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

**Betty Montgomery**  
Auditor of State

October 31, 2003



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Tuscarawas-Carroll-Harrison Educational Service Center, Tuscarawas County, Ohio, (Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

111 Second St., NW / Fourth Floor / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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

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

**Betty Montgomery**  
Auditor of State

October 31, 2003



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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

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

**TUSCARAWAS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 9, 2003**