



**Auditor of State
Betty Montgomery**

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Professional Development funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information and is not a required part of the basic financial statements. We subjected the Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 3, 2006

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's discussion and analysis of the Mid-Ohio 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, 2005. 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 notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$1,023,007 which represents a 10.08% decrease from 2004.
- General revenues accounted for \$4,765,286 in revenue or 31.25% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,484,998 or 68.75% of total revenues of \$15,250,284.
- The ESC had \$16,273,291 in expenses related to governmental activities; \$10,484,998 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$4,765,286 were not adequate to provide for these programs.
- The ESC's major governmental funds are the general fund, the professional development fund and the facilities renovation fund. The general fund had \$13,385,175 in revenues and other financing sources and \$17,387,567 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$4,002,392 from \$8,104,112 to \$4,101,720.
- The professional development fund had \$1,017,320 in revenues and \$1,034,625 in expenses. The professional development fund's fund balance decreased \$17,305 from \$87,239 to \$69,934.
- The facilities renovation fund had \$3,849,000 in other financing sources and \$2,197,972 in expenses. The facilities renovation fund's fund balance increased \$1,651,028 from \$0 to \$1,651,028.

Using these Basic Financial Statements

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

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

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant and pupil transportation. The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental 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 only major governmental funds are the general fund, professional development fund and facilities renovation fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Funds

The ESC maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC has one internal service fund that accounts for a self-insurance program which provides medical/surgical, dental and vision to employees. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the ESC's Fiduciary Responsibilities

The ESC maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. 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 25-49 of this report.

The ESC as a Whole

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

The table below provides a summary of the ESC's net assets for 2005 and 2004.

| | Net Assets | |
|--|---|---|
| | Governmental Activities <u>2005</u> | Governmental Activities <u>2004</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 9,440,561 | \$ 10,882,389 |
| Capital assets, net | <u>2,749,172</u> | <u>1,476,341</u> |
| Total assets | <u>12,189,733</u> | <u>12,358,730</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 2,308,203 | 1,315,968 |
| Long-term liabilities | <u>750,992</u> | <u>889,217</u> |
| Total liabilities | <u>3,059,195</u> | <u>2,205,185</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 2,311,625 | 961,329 |
| Restricted | 1,768,779 | 202,356 |
| Unrestricted | <u>5,050,134</u> | <u>8,989,860</u> |
| Total net assets | <u>\$ 9,130,538</u> | <u>\$ 10,153,545</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the ESC's assets exceeded liabilities by \$9,130,538. Of this total, \$1,768,779 is restricted in use.

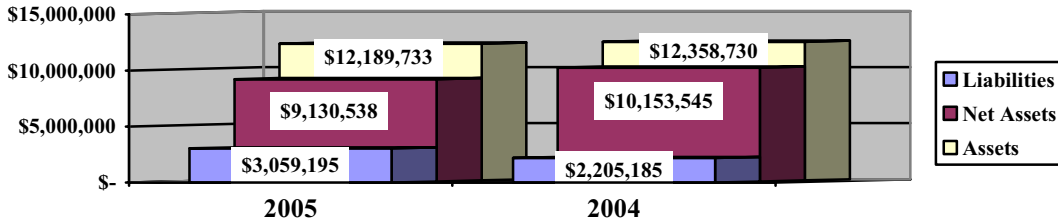
**MID-OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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At fiscal year-end, capital assets represented 22.55% of total assets. Capital assets include land, construction in progress, buildings and improvements, and furniture and equipment. Invested in capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,311,625. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$1,768,779, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,050,134 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

| | Governmental Activities 2005 | Governmental Activities 2004 |
|------------------------------------|------------------------------------|------------------------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services and sales | \$ 8,568,019 | \$ 9,264,826 |
| Operating grants and contributions | 1,916,979 | 1,616,709 |
| General revenues: | | |
| Grants and entitlements | 4,389,901 | 4,690,235 |
| Investment earnings | 184,871 | 117,465 |
| Other | 190,514 | 83,922 |
| Total revenues | <u>15,250,284</u> | <u>15,773,157</u> |

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

| | Governmental Activities <u>2005</u> | Governmental Activities <u>2004</u> |
|---|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 257,345 | \$ 253,328 |
| Special | 3,866,662 | 3,429,681 |
| Adult/continuing education | 50,171 | 59,258 |
| Support services: | | |
| Pupil | 3,492,931 | 2,986,634 |
| Instructional staff | 5,500,459 | 5,249,274 |
| Board of education | 76,273 | 68,467 |
| Administration | 1,002,690 | 906,884 |
| Fiscal | 514,810 | 421,291 |
| Business | 402,012 | 430,854 |
| Operations and maintenance | 335,447 | 32,779 |
| Pupil transportation | 4,933 | 4,710 |
| Central | 281,521 | 183,289 |
| Operation of non-instructional services | 451,831 | 6,870 |
| Interest and fiscal charges | <u>36,206</u> | <u>31,611</u> |
| Total expenses | <u>16,273,291</u> | <u>14,064,930</u> |
| Change in net assets | (1,023,007) | 1,708,227 |
| Net assets at beginning of year | <u>10,153,545</u> | <u>8,445,318</u> |
| Net assets at end of year | <u>\$ 9,130,538</u> | <u>\$ 10,153,545</u> |

Governmental Activities

Net assets of the ESC's governmental activities decreased \$1,023,007. Total governmental expenses of \$16,273,291 were offset by program revenues of \$10,484,998 and general revenues of \$4,765,286. Program revenues supported 64.43% of the total governmental expenses.

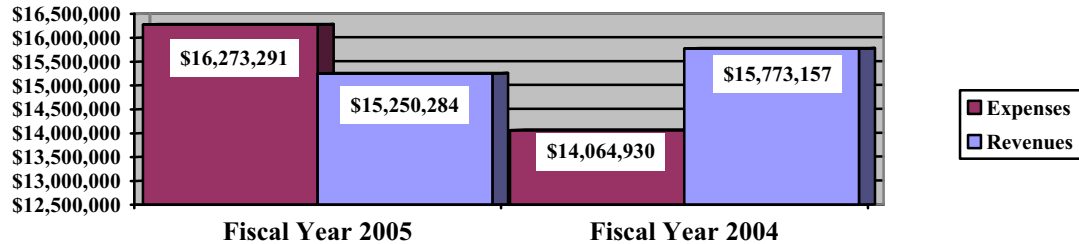
The largest expense of the ESC is for support services. Support expenses totaled \$11,611,076 or 71.35% of total governmental expenses for fiscal year 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

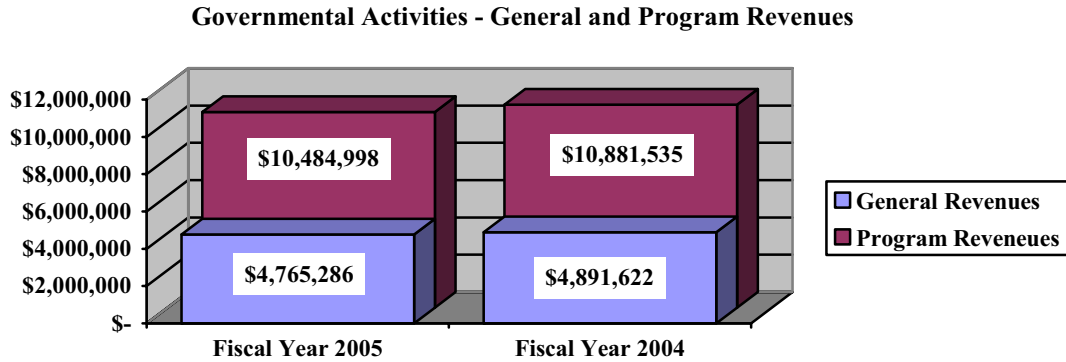
| | Total Cost of Services 2005 | Net Cost of Services 2005 | Total Cost of Services 2004 | Net Cost of Services 2004 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 257,345 | \$ 42,033 | \$ 253,328 | \$ 10,038 |
| Special | 3,866,662 | 1,059,411 | 3,429,681 | 1,025,542 |
| Adult/continuing education | 50,171 | 508 | 59,258 | (12,420) |
| Support services: | | | | |
| Pupil | 3,492,931 | 958,326 | 2,986,634 | (352,475) |
| Instructional staff | 5,500,459 | 1,171,240 | 5,249,274 | 853,033 |
| Board of education | 76,273 | 76,273 | 68,467 | 68,467 |
| Administration | 1,002,690 | 950,564 | 906,884 | 848,939 |
| Fiscal | 514,810 | 419,425 | 421,291 | 323,929 |
| Business | 402,012 | 389,595 | 430,854 | 166,357 |
| Operations and maintenance | 335,447 | 333,549 | 32,779 | 32,429 |
| Pupil transportation | 4,933 | 1,477 | 4,710 | (828) |
| Central | 281,521 | 278,521 | 183,289 | 181,903 |
| Operations of non-instructional services | 451,831 | 71,165 | 6,870 | 6,870 |
| Interest and fiscal charges | 36,206 | 36,206 | 31,611 | 31,611 |
| Total | <u>\$ 16,273,291</u> | <u>\$ 5,788,293</u> | <u>\$ 14,064,930</u> | <u>\$ 3,183,395</u> |

The dependence upon general revenues for governmental activities is apparent, 26.40% of instruction activities are supported through general revenues. For all governmental activities, general revenue support is 35.57%. The ESC's contract services as a whole are by far the primary support for ESC's students.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the ESC's governmental activities revenue for fiscal years 2005 and 2004.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$5,821,936, which is lower than last year's restated total of \$8,219,439. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

| | Fund Balance / (Deficit) June 30, 2005 | Restated Fund Balance June 30, 2004 | Increase (Decrease) | Percentage Change |
|--------------------------|--|---|------------------------|----------------------|
| General | \$ 4,101,720 | \$ 8,104,112 | \$ (4,002,392) | (49.39) % |
| Professional Development | 69,934 | 87,239 | (17,305) | (19.84) % |
| Facilities Renovation | 1,651,028 | - | 1,651,028 | 100.00 % |
| Other Governmental | (746) | 28,088 | (28,834) | (102.66) % |
| Total | \$ 5,821,936 | \$ 8,219,439 | \$ (2,397,503) | (29.17) % |

General Fund

The ESC's general fund balance decreased by \$4,002,392 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures including a large transfer out to the facilities renovation fund for renovation of the new ESC building. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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| | 2005 <u>Amount</u> | Restated 2004 <u>Amount</u> | Increase <u>(Decrease)</u> | Percentage <u>Change</u> |
|---|--------------------------|-----------------------------------|-------------------------------|-----------------------------|
| <u>Revenues</u> | | | | |
| Tuition | \$ 127,157 | \$ 101,732 | \$ 25,425 | 24.99 % |
| Contract services | 8,437,464 | 8,456,044 | (18,580) | (0.22) % |
| Earnings on investments | 190,009 | 97,514 | 92,495 | 94.85 % |
| Intergovernmental | 4,389,901 | 4,698,171 | (308,270) | (6.56) % |
| Other revenues | <u>190,514</u> | <u>83,922</u> | <u>106,592</u> | 127.01 % |
| Total | <u>\$ 13,335,045</u> | <u>\$ 13,437,383</u> | <u>\$ (102,338)</u> | (0.76) % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 3,738,618 | \$ 3,437,345 | \$ 301,273 | 8.76 % |
| Support services | 9,568,166 | 9,042,501 | 525,665 | 5.81 % |
| Non-instructional services | 6,997 | 6,870 | 127 | 1.85 % |
| Facilities acquisition and construction | 51,337 | 827,405 | (776,068) | (93.80) % |
| Capital outlay | 22,392 | 375,435 | (353,043) | (94.04) % |
| Debt service | <u>136,063</u> | <u>101,412</u> | <u>34,651</u> | 34.17 % |
| Total | <u>\$ 13,523,573</u> | <u>\$ 13,790,968</u> | <u>\$ (267,395)</u> | (1.94) % |

The increase in tuition and other revenues is primarily due to more services provided by the ESC to districts. The increase in earnings on investments is due to the increase of interest rates by the Federal Reserve. The decrease in intergovernmental revenues is due to a decrease in grants. Increases in expenditures are primarily due to increases in staff to provide more services, in addition to increases in the cost of benefits. The decrease in capital outlay is due to fewer new copier leases.

Professional Development Fund

The professional development fund had \$1,017,320 in revenues and \$1,034,625 in expenses. The professional development fund balance decreased \$17,305 from \$87,239 to \$69,934.

Facilities Renovation Fund

The facilities renovation fund had \$3,849,000 in other financing sources and \$2,197,972 in expenses. The facilities renovation fund's fund balance increased \$1,651,028 from \$0 to \$1,651,028.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the ESC made no amendments to estimated revenues of the general fund. For the general fund, original and final budgeted revenues and other financing sources were \$12,683,293. Actual revenues and other financing sources for fiscal year 2005 was \$14,017,432. This represents a \$1,334,139 increase over final budgeted revenues. The increase is primarily due to an increase in services provided by the ESC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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General fund original appropriations (appropriated expenditures including other financing uses) totaled \$20,593,572 and final appropriations were \$20,626,033. The actual budget basis expenditures for fiscal year 2005 totaled \$17,674,684, which is \$2,951,349 lower than the final budget appropriations. The ESC appropriated funds based on estimated resources, however determined it would be necessary to curb spending in the general fund during fiscal year 2005 due to the transfer to the facility renovation fund for the renovation of the new building.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the ESC had \$2,749,172 invested in land, construction in progress, buildings and improvements, and furniture and equipment. See Note 7 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal year 2005 balances compared to 2004:

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

| | Governmental Activities | |
|---------------------------|-------------------------|------------------|
| | 2005 | 2004 |
| Land | \$ 644,250 | \$ 644,250 |
| Construction in progress | 1,497,266 | 77,405 |
| Building and improvements | 102,577 | 104,692 |
| Furniture and equipment | 505,079 | 649,994 |
| Total | \$ 2,749,172 | \$ 1,476,341 |

The overall increase in capital assets of \$1,272,831 is due to capital outlays of \$1,508,779 exceeding depreciation expense of \$222,712 in the fiscal year and total disposals (net of accumulated depreciation) of \$13,236. \$1,419,861 of the increase in capital assets is a result of the ESC's renovation of a building purchased in 2004.

Debt Administration

At June 30, 2005, the ESC had \$437,547 in capital lease obligations outstanding. Of this total, \$110,526 is due within one year and \$327,021 is due within greater than one year. See Note 8 to the basic financial statements for additional information. The following table summarizes the capital lease obligation outstanding.

Outstanding Debt at June 30

| | Governmental Activities | Governmental Activities |
|---------------------------|----------------------------|----------------------------|
| | 2005 | 2004 |
| Capital lease obligations | \$ 437,547 | \$ 515,012 |

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Current Financial Related Activity

The ESC continues to operate on strong financial ground relying on contracts with area agencies and local, city and exempted village school districts in the counties of Richland, Morrow and Crawford, as well as state foundation revenue and grants. The future financial stability of the ESC is not without concerns in light of the new biennium budget proposal that does not appear to include any increases in the per pupil amounts for ESCs.

Potential loss of Medicaid funds is another concern of the ESC. With current rules governing this reimbursement set to expire June 30, 2005; the ESC would suffer significant financial harm should this program not be continued.

Renovation of the ESC's new facility, which began in December 2004, was completed during fiscal year 2006. The ESC moved into the new facility during fiscal year 2006.

As with all ESCs, the talk of regional delivery of services for education in Ohio is a concern of the ESC. At this time, we are hopeful the outcome will be favorable to ESCs and do not foresee any major changes to operations in the immediate future. While the regional delivery would not impact the core services delivered to clients, it could significantly reduce the administrative/fiscal fees currently being collected.

The ESC will continue to be responsive to client needs with the ultimate goal of providing the necessary resources to meet student needs. The ESC prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the ESC to operate efficiently and to meet the financial challenges of the future.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, 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 Mrs. Lorraine Earnest, Treasurer, Mid-Ohio Educational Service Center, 890 West Fourth Street, Suite 100, Mansfield, Ohio 44906.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 7,272,324 |
| Cash with fiscal agent | 282,353 |
| Receivables: | |
| Accounts. | 178,804 |
| Intergovernmental | 1,668,242 |
| Accrued interest | 22,495 |
| Prepayments | 4,624 |
| Materials and supplies inventory | 11,719 |
| Capital assets: | |
| Land and construction-in-progress. | 2,141,516 |
| Depreciable capital assets, net | 607,656 |
| Capital assets, net | 2,749,172 |
| Total assets. | 12,189,733 |
| Liabilities: | |
| Accounts payable. | 76,166 |
| Contracts payable. | 725,844 |
| Accrued wages and benefits | 929,070 |
| Pension obligation payable. | 146,248 |
| Intergovernmental payable | 120,075 |
| Deferred revenue | 200,000 |
| Claims payable | 110,800 |
| Long-term liabilities: | |
| Due within one year. | 200,429 |
| Due in more than one year | 550,563 |
| Total liabilities | 3,059,195 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 2,311,625 |
| Restricted for: | |
| Capital projects | 1,651,028 |
| Locally funded programs. | 3,354 |
| State funded programs. | 70,656 |
| Federally funded programs. | 42,841 |
| Other purposes | 900 |
| Unrestricted. | 5,050,134 |
| Total net assets | \$ 9,130,538 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Expenses | Program Revenues | | Net (Expense) |
|--|----------------------|--------------------------------------|--|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 257,345 | \$ 141,526 | \$ 73,786 | \$ (42,033) |
| Special | 3,866,662 | 2,732,393 | 74,858 | (1,059,411) |
| Adult/continuing education. | 50,171 | 5,124 | 44,539 | (508) |
| Support services: | | | | |
| Pupil. | 3,492,931 | 2,282,462 | 252,143 | (958,326) |
| Instructional staff | 5,500,459 | 3,406,164 | 923,055 | (1,171,240) |
| Board of education | 76,273 | - | - | (76,273) |
| Administration. | 1,002,690 | - | 52,126 | (950,564) |
| Fiscal. | 514,810 | 154 | 95,231 | (419,425) |
| Business. | 402,012 | - | 12,417 | (389,595) |
| Operations and maintenance | 335,447 | 196 | 1,702 | (333,549) |
| Pupil transportation. | 4,933 | - | 3,456 | (1,477) |
| Central | 281,521 | - | 3,000 | (278,521) |
| Operation of non-instructional services | 451,831 | - | 380,666 | (71,165) |
| Interest and fiscal charges | 36,206 | - | - | (36,206) |
| Total governmental activities | <u>\$ 16,273,291</u> | <u>\$ 8,568,019</u> | <u>\$ 1,916,979</u> | <u>(5,788,293)</u> |

General Revenues:

| | |
|---|---------------------|
| Grants and entitlements not restricted to specific programs. | 4,389,901 |
| Investment earnings | 184,871 |
| Miscellaneous | 190,514 |
| Total general revenues. | <u>4,765,286</u> |
| Change in net assets | (1,023,007) |
| Net assets at beginning of year | <u>10,153,545</u> |
| Net assets at end of year. | <u>\$ 9,130,538</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General</u> | <u>Professional Development</u> | <u>Facilities Renovation</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------------------|----------------------------------|---|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$ 4,330,174 | \$ 299,560 | \$ 2,376,872 | \$ 265,718 | \$ 7,272,324 |
| Receivables: | | | | | |
| Accounts | 52,100 | - | - | 396 | 52,496 |
| Intergovernmental | 1,337,815 | 153,608 | - | 173,857 | 1,665,280 |
| Accrued interest | 22,184 | - | - | - | 22,184 |
| Interfund receivable | 461,784 | - | - | - | 461,784 |
| Prepayments | 4,099 | 525 | - | - | 4,624 |
| Materials and supplies inventory | 11,719 | - | - | - | 11,719 |
| Total assets | <u>\$ 6,219,875</u> | <u>\$ 453,693</u> | <u>\$ 2,376,872</u> | <u>\$ 439,971</u> | <u>\$ 9,490,411</u> |
| Liabilities: | | | | | |
| Accounts payable | \$ 48,661 | \$ 27,435 | \$ - | \$ 70 | \$ 76,166 |
| Contracts payable | - | - | 725,844 | - | 725,844 |
| Accrued wages and benefits | 902,814 | - | - | 26,256 | 929,070 |
| Compensated absences payable | 20,456 | - | - | - | 20,456 |
| Pension obligation payable. | 141,712 | 82 | - | 4,454 | 146,248 |
| Intergovernmental payable. | 83,832 | 4,004 | - | 32,239 | 120,075 |
| Interfund payable. | - | 152,238 | - | 309,546 | 461,784 |
| Deferred revenue. | 920,680 | 200,000 | - | 68,152 | 1,188,832 |
| Total liabilities | <u>2,118,155</u> | <u>383,759</u> | <u>725,844</u> | <u>440,717</u> | <u>3,668,475</u> |
| Fund Balances: | | | | | |
| Reserved for encumbrances | - | 261,938 | 1,644,627 | 221,655 | 2,128,220 |
| Reserved for materials and supplies inventory. | 11,719 | - | - | - | 11,719 |
| Reserved for prepayments | 4,099 | 525 | - | - | 4,624 |
| Unreserved, undesignated (deficit), reported in: | | | | | |
| General fund | 4,085,902 | - | - | - | 4,085,902 |
| Special revenue funds. | - | (192,529) | - | (222,401) | (414,930) |
| Capital projects fund | - | - | 6,401 | - | 6,401 |
| Total fund balances (deficit) | <u>4,101,720</u> | <u>69,934</u> | <u>1,651,028</u> | <u>(746)</u> | <u>5,821,936</u> |
| Total liabilities and fund balances | <u>\$ 6,219,875</u> | <u>\$ 453,693</u> | <u>\$ 2,376,872</u> | <u>\$ 439,971</u> | <u>\$ 9,490,411</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | | | |
|--|----|-----------|-----------|
| Total governmental fund balances | | \$ | 5,821,936 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 2,749,172 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Contract services | \$ | 899,585 | |
| Intergovernmental revenue | | 68,152 | |
| Accrued interest | | 21,095 | |
| | | | |
| Total | | | 988,832 |
| An internal service fund is used by management to charge the costs of medical/dental/life insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | | 301,134 |
| Long-term liabilities, including capital lease obligations, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Compensated absences | | (292,989) | |
| Capital lease obligation payable | | (437,547) | |
| | | | |
| Total | | | (730,536) |
| Net assets of governmental activities | | \$ | 9,130,538 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General</u> | <u>Professional Development</u> | <u>Facilities Renovation</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------------------------|----------------------------------|---|---|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Tuition | \$ 127,157 | \$ - | \$ - | \$ 403 | \$ 127,560 |
| Contract services | 8,437,464 | - | - | 8,265 | 8,445,729 |
| Earnings on investments | 190,009 | - | - | - | 190,009 |
| Other local revenues | 190,514 | 83 | - | 150,768 | 341,365 |
| Intergovernmental - Intermediate | 981 | 14,917 | - | 9,638 | 25,536 |
| Intergovernmental - State | 3,398,359 | 1,002,320 | - | 121,858 | 4,522,537 |
| Intergovernmental - Federal | 990,561 | - | - | 805,783 | 1,796,344 |
| Total revenue | <u>13,335,045</u> | <u>1,017,320</u> | <u>-</u> | <u>1,096,715</u> | <u>15,449,080</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 724 | - | - | 236,930 | 237,654 |
| Special | 3,737,894 | - | - | 67,588 | 3,805,482 |
| Adult/continuing education | - | - | - | 47,867 | 47,867 |
| Support services: | | | | | |
| Pupil | 3,143,308 | 126,461 | - | 137,064 | 3,406,833 |
| Instructional staff | 4,430,384 | 809,749 | - | 142,643 | 5,382,776 |
| Board of education | 73,260 | - | - | - | 73,260 |
| Administration | 902,108 | 44,414 | - | 9,274 | 955,796 |
| Fiscal | 394,020 | 54,001 | - | 47,003 | 495,024 |
| Business | 225,482 | - | - | 13,553 | 239,035 |
| Operations and maintenance | 133,743 | - | - | 1,830 | 135,573 |
| Pupil transportation | 966 | - | - | 3,772 | 4,738 |
| Central | 264,895 | - | - | 6,034 | 270,929 |
| Operation of non-instructional services | 6,997 | - | - | 426,985 | 433,982 |
| Facilities acquisition and construction | 51,337 | - | 2,197,972 | - | 2,249,309 |
| Capital outlay | 22,392 | - | - | - | 22,392 |
| Debt service: | | | | | |
| Principal retirement | 99,857 | - | - | - | 99,857 |
| Interest and fiscal charges | 36,206 | - | - | - | 36,206 |
| Total expenditures | <u>13,523,573</u> | <u>1,034,625</u> | <u>2,197,972</u> | <u>1,140,543</u> | <u>17,896,713</u> |
| Excess of revenues under expenditures | <u>(188,528)</u> | <u>(17,305)</u> | <u>(2,197,972)</u> | <u>(43,828)</u> | <u>(2,447,633)</u> |
| Other financing sources (uses): | | | | | |
| Sale of capital assets | 27,738 | - | - | - | 27,738 |
| Transfers in | - | - | 3,849,000 | 14,994 | 3,863,994 |
| Transfers (out) | (3,863,994) | - | - | - | (3,863,994) |
| Capital lease transaction | 22,392 | - | - | - | 22,392 |
| Total other financing sources (uses) | <u>(3,813,864)</u> | <u>-</u> | <u>3,849,000</u> | <u>14,994</u> | <u>50,130</u> |
| Net change in fund balances | (4,002,392) | (17,305) | 1,651,028 | (28,834) | (2,397,503) |
| Fund balances | | | | | |
| at beginning of year (restated) | 8,104,112 | 87,239 | - | 28,088 | 8,219,439 |
| Fund balances (deficit) at end of year | <u>\$ 4,101,720</u> | <u>\$ 69,934</u> | <u>\$ 1,651,028</u> | <u>\$ (746)</u> | <u>\$ 5,821,936</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND 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, 2005

Net change in fund balances - total governmental funds \$ (2,397,503)

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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|---------------------------|------------------|------------------|
| Capital asset additions | \$ 1,508,779 | |
| Current year depreciation | <u>(222,712)</u> | |
| Total | | 1,286,067 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (13,236)

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

| | | |
|-------------------|----------------|------------------|
| Contract services | (111,942) | |
| Tuition | (42,800) | |
| Intergovernmental | (38,916) | |
| Accrued interest | <u>(7,640)</u> | |
| Total | | (201,298) |

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 99,857

The issuance of capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (22,392)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. 40,667

The internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 184,831

Change in net assets of governmental activities \$ (1,023,007)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Tuition | \$ 71,361 | \$ 71,361 | \$ 79,022 | \$ 7,661 |
| Contract services | 8,069,171 | 8,069,171 | 8,935,382 | 866,211 |
| Earnings on investments | 163,669 | 163,669 | 181,239 | 17,570 |
| Other local revenues | 108,472 | 108,472 | 120,116 | 11,644 |
| Intergovernmental - State | 3,251,745 | 3,251,745 | 3,600,814 | 349,069 |
| Intergovernmental - Federal | 878,693 | 878,693 | 973,019 | 94,326 |
| Total revenue | <u>12,543,111</u> | <u>12,543,111</u> | <u>13,889,592</u> | <u>1,346,481</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 1,025 | 1,027 | 840 | 187 |
| Special | 4,365,448 | 4,374,213 | 3,577,305 | 796,908 |
| Support services: | | | | |
| Pupil | 3,788,584 | 3,796,191 | 3,104,589 | 691,602 |
| Instructional staff | 5,389,132 | 5,399,951 | 4,416,171 | 983,780 |
| Board of education | 65,641 | 65,773 | 53,790 | 11,983 |
| Administration | 1,091,936 | 1,094,129 | 894,797 | 199,332 |
| Fiscal | 495,262 | 496,257 | 405,847 | 90,410 |
| Business | 409,027 | 409,848 | 335,181 | 74,667 |
| Operations and maintenance | 168,942 | 169,281 | 138,441 | 30,840 |
| Central | 321,760 | 322,406 | 263,669 | 58,737 |
| Operation of non-instructional services | 8,038 | 8,054 | 6,587 | 1,467 |
| Facilities acquisition and construction | 62,647 | 62,773 | 51,337 | 11,436 |
| Total expenditures | <u>16,167,442</u> | <u>16,199,903</u> | <u>13,248,554</u> | <u>2,951,349</u> |
| Excess of revenues over (under) expenditures | <u>(3,624,331)</u> | <u>(3,656,792)</u> | <u>641,038</u> | <u>4,297,830</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 1,198 | 1,198 | 7,083 | 5,885 |
| Sale of capital assets | 46,800 | 46,800 | 27,738 | (19,062) |
| Transfers (out) | (3,863,996) | (3,863,996) | (3,863,996) | - |
| Advances in | 92,184 | 92,184 | 93,019 | 835 |
| Advances (out) | (562,134) | (562,134) | (562,134) | - |
| Total other financing sources (uses) | <u>(4,285,948)</u> | <u>(4,285,948)</u> | <u>(4,298,290)</u> | <u>(12,342)</u> |
| Net change in fund balance | (7,910,279) | (7,942,740) | (3,657,252) | 4,285,488 |
| Fund balance at beginning of year | 7,983,999 | 7,983,999 | 7,983,999 | - |
| Prior year encumbrances appropriated | 9,241 | 9,241 | 9,241 | - |
| Fund balance at end of year | <u>\$ 82,961</u> | <u>\$ 50,500</u> | <u>\$ 4,335,988</u> | <u>\$ 4,285,488</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
PROFESSIONAL DEVELOPMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental - Intermediate. | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ - |
| Intergovernmental - State | 1,331,559 | 1,331,559 | 1,054,811 | (276,748) |
| Total revenue | <u>1,346,559</u> | <u>1,346,559</u> | <u>1,069,811</u> | <u>(276,748)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Support services: | | | | |
| Pupil. | 75,322 | 142,372 | 128,612 | 13,760 |
| Instructional staff | 643,336 | 1,216,008 | 1,098,486 | 117,522 |
| Administration. | 25,984 | 49,114 | 44,367 | 4,747 |
| Fiscal | 31,625 | 59,777 | 54,000 | 5,777 |
| Total expenditures | <u>776,267</u> | <u>1,467,271</u> | <u>1,325,465</u> | <u>141,806</u> |
| Excess of revenues over (under) expenditures. | <u>570,292</u> | <u>(120,712)</u> | <u>(255,654)</u> | <u>(134,942)</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure. | 83 | 83 | 83 | - |
| Advances in. | 152,238 | 152,238 | 152,238 | - |
| Advances (out) | (6,098) | (6,098) | (6,098) | - |
| Total other financing sources (uses) | <u>146,223</u> | <u>146,223</u> | <u>146,223</u> | <u>-</u> |
| Net change in fund balance | 716,515 | 25,511 | (109,431) | (134,942) |
| Fund balance at beginning of year | 60,289 | 60,289 | 60,289 | - |
| Prior year encumbrances appropriated . . . | 56,625 | 56,625 | 56,625 | - |
| Fund balance at end of year | <u>\$ 833,429</u> | <u>\$ 142,425</u> | <u>\$ 7,483</u> | <u>\$ (134,942)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Governmental Activities - Internal Service Fund</u> |
|------------------------------------|---|
| Assets: | |
| Current assets: | |
| Cash with fiscal agent | \$ 282,353 |
| Receivables: | |
| Accounts | 126,308 |
| Accrued interest | 311 |
| Intergovernmental | <u>2,962</u> |
| Total current assets | <u>411,934</u> |
| Liabilities: | |
| Claims payable | <u>110,800</u> |
| Net assets: | |
| Unrestricted | <u>301,134</u> |
| Total net assets. | <u><u>\$ 301,134</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Governmental Activities - Internal Service Fund |
|---|--|
| | |
| Operating revenues: | |
| Sales/charges for services | \$ 1,517,975 |
| Operating expenses: | |
| Purchased services. | 286,743 |
| Claims | 1,048,903 |
| Total operating expenses | 1,335,646 |
| Operating income | 182,329 |
| Nonoperating revenues: | |
| Interest revenue | 2,502 |
| Change in net assets. | 184,831 |
| Net assets at beginning of year. | 116,303 |
| Net assets at end of year | \$ 301,134 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Governmental Activities - Internal Service Fund |
|---|--|
| Cash flows from operating activities: | |
| Cash received from sales/charges for services | \$ 1,624,249 |
| Cash payments for purchased services. | (403,928) |
| Cash payments for claims | <u>(1,037,705)</u> |
| Net cash provided by operating activities | <u>182,616</u> |
| Cash flows from investing activities: | |
| Interest received | <u>2,244</u> |
| Net cash provided by investing activities | <u>2,244</u> |
| Net increase in cash and cash equivalents | 184,860 |
| Cash and cash equivalents at beginning of year . . . | <u>97,493</u> |
| Cash and cash equivalents at end of year. | <u><u>\$ 282,353</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 182,329 |
| Changes in assets and liabilities: | |
| Increase in accounts receivable | (9,845) |
| Increase in intergovernmental receivable | (1,066) |
| Increase in claims payable. | <u>11,198</u> |
| Net cash provided by operating activities | <u><u>\$ 182,616</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Agency |
|---|---------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 178,977 |
| Receivables: | |
| Accounts | 2,500 |
| Intergovernmental | 83,654 |
| Prepays. | 350 |
| Total assets | \$ 265,481 |
| Liabilities: | |
| Accounts payable. | \$ 2,669 |
| Intergovernmental payable | 250 |
| Due to students | 262,562 |
| Total liabilities | \$ 265,481 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996. Educational Service Centers were formed as a result of Senate Bill 9 as amended by Am. Sub. H.B. 117.

The ESC has offices in Richland, Crawford and Morrow Counties. The Governing Board consists of seven members elected by the voters of each County. This Governing Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 180 non-certificated employees and 155 certificated (including administrative) employees to provide services to approximately 34,404 students throughout Crawford, Morrow, and Richland counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service, preschool and student related 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 organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the 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. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 24 school districts, 1 county educational service center and a career center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have any equity interest in the COG. Financial information can be obtained from Jerry Payne, Treasurer of the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Business Advisory Councils of Crawford, Morrow, and Richland Counties

The ESC shall appoint a Business Advisory Council (the "Councils") in accordance with Ohio Revised Code, Section 3313.174. The purpose of the Councils shall be to provide insight, generate suggestions, and promote a positive relationship between the ESC and the communities it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within the ESC's financial means, in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Councils shall be composed of an optional number of members as determined by the ESC Superintendent. The membership may be selected from the fields of commercial, industrial, service, agricultural and governmental agencies. Consideration may also be given to one citizen representative from each of the local districts. Each local superintendent may also serve as an "ex officio" member. The ESC Superintendent, or his designee, shall serve as the chairman of the council.

The Superintendent of the ESC shall develop administrative guidelines which will ensure that the time and efforts of the Councils and those of the professional staff are utilized properly to accomplish these educational outcomes and to provide for a continued, strong working relationship between the school community, the Councils, and the larger community of employers.

The ESC has no ongoing financial interest or financial responsibility to the Councils.

Pioneer Career and Technology Center

The Pioneer Career and Technology Center, a Career Center, is a distinct political subdivision of the State of Ohio, operated under the direction of an eleven member Board of Education, which consists of one representative from each of the participating school district's elected board. Pioneer possesses its own budgeting and taxing authority. Financial information is available from Jerry Payne, Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Center.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Tri-Rivers Career Center

The Tri Rivers Career Center (the "Center") is a district political subdivision of the State of Ohio. The Center is operated under the direction of a Board of Education, which consists of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The Center possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer of the Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the Center.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan'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 Plan to cover the costs of administering the program. See Note 10 for further information pertaining to this insurance purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Professional Development Fund - The professional development fund is used to account for state monies which assist in the training of teachers along with technical assistance.

Facilities Renovation Fund - The facilities renovation fund is used to account for all transactions related to the acquisition and construction of the new administrative building.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Other governmental funds of the ESC are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no enterprise funds. The following is a description of the ESC's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the ESC, or to other governments, on a cost-reimbursement basis. The only internal service fund of the ESC accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund 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 proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the ESC's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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: contract services, interest, tuition, and grants.

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

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

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

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

E. Budgets

An Educational Service Center is required by state Statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$14.34 for local school districts and \$6.50 for city school districts. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$40.52. This amount is provided from State Resources.

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's 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 ESC 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 the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's 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 Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal year 2005.

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit and federal securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The ESC has invested funds in STAR Ohio during fiscal year 2005. 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, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the governing board, investment earnings are assigned to the general fund and the internal service fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$190,009, which includes \$44,417 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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 in the fund financial statements.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

All reported capital assets except land and construction in progress 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:

| Description | Governmental Activities Estimated Lives |
|----------------------------|---|
| Buildings and improvements | 50 years |
| Furniture and equipment | 5 - 20 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

Compensated absences of the ESC consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or older with at least 10 years of service or any age with 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 the internal service fund 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

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

N. Net Assets

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

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

O. 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

P. Estimates

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the ESC has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the ESC, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the ESC as they were previously reported as of June 30, 2004:

| | <u>General</u> | <u>Professional Development</u> | <u>Nonmajor</u> | <u>Total</u> |
|--------------------------------------|----------------|-------------------------------------|-----------------|--------------|
| Fund Balances, June 30, 2004 | \$ 8,143,978 | \$ 87,524 | \$ 28,267 | \$ 8,259,769 |
| GASB Technical Bulletin No. 2004-2 | (39,866) | (285) | (179) | (40,330) |
| Restated Fund Balance, June 30, 2004 | \$ 8,104,112 | \$ 87,239 | \$ 28,088 | \$ 8,219,439 |

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

| <u>Nonmajor Funds</u> | <u>Deficit</u> |
|--------------------------------|----------------|
| Management Information Systems | \$ 34 |
| Alternative Education | 5,426 |
| Miscellaneous Federal Grants | 25,797 |
| Alternative School | 15,197 |

The Management Information Systems, Alternative Education, Miscellaneous Federal Grants and Alternative School funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2005 was \$282,353.

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all ESC deposits was \$749,824. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$314,710 of the ESC's bank balance of \$1,404,799 was exposed to custodial risk as discussed below, while \$1,090,089 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2005, the ESC had the following investments and maturities:

| Investment type | Balance at Fair Value | Investment Maturities | | | | |
|-----------------|--------------------------|-----------------------|-------------------|--------------------|--------------------|---------------------------|
| | | 6 months or less | 7 to 12 months | 13 to 18 months | 19 to 24 months | Greater than 24 Months |
| FHLB | \$ 1,292,750 | \$ - | \$ 297,281 | \$ - | \$ 199,000 | \$ 796,469 |
| FNMA | 548,173 | - | - | - | 199,126 | 349,047 |
| STAR Ohio | 5,142,907 | 5,142,907 | - | - | - | - |
| | <u>\$ 6,983,830</u> | <u>\$ 5,142,907</u> | <u>\$ 297,281</u> | <u>\$ -</u> | <u>\$ 398,126</u> | <u>\$ 1,145,516</u> |

The weighted average maturity of investments is .61 years.

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, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a AAAM money market rating.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2005:

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|------------------------|---------------------|-------------------|
| FHLB | \$ 1,292,750 | 18.51 |
| FNMA | 548,173 | 7.85 |
| STAR Ohio | <u>5,142,907</u> | <u>73.64</u> |
| | <u>\$ 6,983,830</u> | <u>100.00</u> |

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

| | | |
|---|--|---------------------|
| <u>Cash and investments per footnote</u> | | |
| Carrying amount of deposits | | \$ 749,824 |
| Investments | | <u>6,983,830</u> |
| Total | | <u>\$ 7,733,654</u> |
| <u>Cash and investments per Statement of Net Assets</u> | | |
| Governmental activities | | \$ 7,554,677 |
| Agency funds | | <u>178,977</u> |
| Total | | <u>\$ 7,733,654</u> |

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|-------------------|
| General | Nonmajor governmental funds | \$ 309,546 |
| General | Professional Development | <u>152,238</u> |
| Total Interfund Loans | | <u>\$ 461,784</u> |

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

| Transfers from General Fund to: | <u>Amount</u> |
|---------------------------------|---------------------|
| Facilities Renovation | \$ 3,849,000 |
| Nonmajor Governmental Funds | <u>14,994</u> |
| Total Transfers | <u>\$ 3,863,994</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

| | |
|-------------------|---------------------|
| Accounts | \$ 178,804 |
| Intergovernmental | 1,668,242 |
| Accrued interest | <u>22,495</u> |
| Total | <u>\$ 1,869,541</u> |

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

| | <u>Balance</u> <u>06/30/04</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>06/30/05</u> |
|---|-----------------------------------|---------------------|--------------------|-----------------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 644,250 | \$ - | \$ - | \$ 644,250 |
| Construction-in-progress | 77,405 | 1,419,861 | - | 1,497,266 |
| Total capital assets, not being depreciated | <u>721,655</u> | <u>1,419,861</u> | <u>-</u> | <u>2,141,516</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings and improvements | 105,750 | - | - | 105,750 |
| Furniture and equipment | 1,250,790 | 88,918 | (34,809) | 1,304,899 |
| Total capital assets, being depreciated | <u>1,356,540</u> | <u>88,918</u> | <u>(34,809)</u> | <u>1,410,649</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Buildings and improvements | (1,058) | (2,115) | - | (3,173) |
| Furniture and equipment | (600,796) | (220,597) | 21,573 | (799,820) |
| Total accumulated depreciation | <u>(601,854)</u> | <u>(222,712)</u> | <u>21,573</u> | <u>(802,993)</u> |
| Governmental activities capital assets, net | <u>\$ 1,476,341</u> | <u>\$ 1,286,067</u> | <u>\$ (13,236)</u> | <u>\$ 2,749,172</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 3,105 |
| Special | 16,444 |
| Adult/continuing education | 322 |
| <u>Support Services:</u> | |
| Pupil | 2,583 |
| Instructional staff | 24,979 |
| Administration | 17,818 |
| Fiscal | 1,811 |
| Business | 147,062 |
| Operations and maintenance | 6,733 |
| Central | 1,855 |
| Total depreciation expense | <u>\$ 222,712</u> |

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NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the ESC has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. New leases are accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined statement of revenues, expenditures and changes in fund balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the statement of net assets in an amount of \$529,869, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2005 fiscal year totaled \$99,857. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|-------------------|
| 2006 | \$ 139,700 |
| 2007 | 132,353 |
| 2008 | 130,631 |
| 2009 | 98,818 |
| 2010 | <u>1,487</u> |
| Total minimum lease payments | <u>502,989</u> |
| Less amount representing interest | <u>(65,442)</u> |
| Total | <u>\$ 437,547</u> |

The ESC does not have capitalized lease obligations after fiscal year 2010.

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

| | <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> | <u>Amount</u> |
|------------------------------|-------------------|------------------|---------------------|-------------------|-------------------|
| | <u>06/30/04</u> | <u>06/30/05</u> | <u>06/30/05</u> | <u>06/30/05</u> | <u>Due in</u> |
| <u>Long-Term Obligations</u> | | | | | <u>One Year</u> |
| Compensated absences | \$ 374,205 | \$ 69,447 | \$ (130,207) | \$ 313,445 | \$ 89,903 |
| Capital lease obligation | <u>515,012</u> | <u>22,392</u> | <u>(99,857)</u> | <u>437,547</u> | <u>110,526</u> |
| Total | <u>\$ 889,217</u> | <u>\$ 91,839</u> | <u>\$ (230,064)</u> | <u>\$ 750,992</u> | <u>\$ 200,429</u> |

Compensated Absences: Compensated absences will be paid from the fund which the employee is paid.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 8 for details.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - RISK MANAGEMENT

A. Comprehensive Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. During fiscal year 2005, the ESC contracted with The Auck Dostal Agency, Inc. for building insurance and with Ohio School Plan for auto liability. Coverages are as follows:

| | |
|---|-------------|
| Building contents – replacement cost (\$5,000 deductible) | \$4,500,000 |
| General liability per occurrence | 1,000,000 |

B. Health Benefits

The ESC has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$75,000 for each health benefits claim. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by American Administrative Group, Inc. Through OME-RESA, the ESC purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

All funds of the ESC participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The ESC's independent third-party administrator has actuarially determined that \$110,800 is a good and sufficient provision for all unmatured claim obligations (including both reported but unpaid claims and incurred but not reported claims, as well as an allowance for claim settlement expenses on the estimated unpaid claims) as of June 30, 2005. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$110,800 reported in the Fund at June 30, 2005 is based on the provisions of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for claims be reported if information prior to the issuance of the basic financials indicates that it is probable that a liability has been incurred at the date of the basic financials and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount during the current and past fiscal year follows:

| <u>Fiscal Year</u> | <u>Beginning Balance</u> | <u>Claims Incurred</u> | <u>Claims Payments</u> | <u>Ending Balance</u> |
|--------------------|------------------------------|----------------------------|----------------------------|---------------------------|
| 2005 | \$ 99,602 | \$ 1,048,903 | \$ (1,037,705) | \$ 110,800 |
| 2004 | 114,751 | 924,065 | (939,214) | 99,602 |

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NOTE 10 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

C. Workers' Compensation Group Rating Plan

For fiscal year 2005, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 11 - 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 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 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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, 2005, 2004, and 2003 were \$389,472, \$365,535, and \$317,125, respectively, 100% has been contributed for fiscal years 2005, 2004 and 2003.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 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 years 2005 and 2004, 13% 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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$901,773, \$850,870, and \$763,790, respectively, 100% has been contributed for fiscal years 2005, 2004, and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$19,042 made by the ESC and \$26,288 made by plan members.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

NOTE 12 - 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the ESC, this amount equaled \$64,412 during fiscal year 2005.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$135,751 during the 2005 fiscal year.

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NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue 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 the GAAP basis are that:

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

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue fund are as follows:

| Net Change in Fund Balance | | |
|---|---------------------|-------------------------------------|
| | <u>General Fund</u> | <u>Professional Development</u> |
| Budget basis | \$ (3,657,252) | \$ (109,431) |
| Net adjustment for revenue accruals | (554,547) | (52,491) |
| Net adjustment for expenditure accruals | (278,282) | (1,237) |
| Net adjustment for other sources/uses | 484,426 | (146,223) |
| Adjustment for encumbrances | 3,263 | 292,077 |
| GAAP basis | \$ (4,002,392) | \$ (17,305) |

NOTE 14 - CONTINGENCIES

A. Grants

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – CONTINGENCIES – (Continued)

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 15 - CONTRACTUAL COMMITMENTS

As of June 30, 2005, the ESC entered into various contractual commitments related to the building projects undertaken by the ESC. A summary of primary contractual commitments outstanding at June 30, 2005, follows:

| <u>Contractor</u> | <u>Contractual Cost Estimate</u> | <u>Total Costs at June 30</u> | <u>Remaining Contractual Commitment</u> |
|----------------------------------|--------------------------------------|-----------------------------------|---|
| Finnegan Painting | \$ 29,996 | \$ (28,805) | \$ 1,191 |
| Alumni Roofing | 199,000 | (124,650) | 74,350 |
| Hudson Construction | 10,813 | (8,759) | 2,054 |
| Schmid Mechanical, Inc. | 670,388 | (376,418) | 293,970 |
| SBA | 215,000 | (124,000) | 91,000 |
| J&B Acoustical, Inc. | 172,855 | (117,390) | 55,465 |
| North Central Fabrication | 57,896 | (52,106) | 5,790 |
| J&B Classical Glass & Mirror Co. | 25,646 | (9,000) | 16,646 |
| Quest | 510,600 | (261,000) | 249,600 |
| Stonecreek Interior Systems, LLC | 59,700 | (1,462) | 58,238 |
| Strong Electric, Inc. | 439,712 | (214,407) | 225,305 |
| Vulcan Enterprises, Inc. | 66,203 | (17,469) | 48,734 |
| Educational Equipment | 160,500 | - | 160,500 |
| Spectra Contract Flooring | 22,800 | (20,520) | 2,280 |
| Standard Plumbing and Heating | 73,600 | (67,660) | 5,940 |
| Studer-Obringer, Inc. | 86,283 | (73,620) | 12,663 |
| Total | <u>\$ 2,800,992</u> | <u>\$ (1,497,266)</u> | <u>\$ 1,303,726</u> |

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 16 – SIGNIFICANT SUBSEQUENT EVENTS

A. New Location

Renovation of the new building was completed in August 2005 and the ESC administration offices moved into the new building located at 890 West Fourth Street, Mansfield, Ohio 44906.

B. Superintendent

Superintendent Thomas Ash retired as of July 30, 2005, and the new Superintendent, Gregg Reink, was appointed on August 1, 2005.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/ Pass Through Grantor/ Program Title | CFDA # | Pass-through Entity Number | Receipts | Expenditures |
|---|---------|--|---------------------------------|---------------------------------|
| <u>U.S. Department of Education</u> | | | | |
| <i>Direct Program:</i> | | | | |
| Fund for the Improvement of Education | 84.215X | N/A | \$392,721 | \$436,274 |
| <i>Passed through the Ohio Department of Education:</i> | | | | |
| Adult Education - State Grant Program | 84.002 | 123521-ABS1-2003 123521-ABS1-2005 123521-ABS1-2005 | 3,792 7,763 <u>56,718</u> | 3,792 7,763 <u>78,511</u> |
| Total Adult Education - State Grant Program | | | <u>60,510</u> | <u>90,066</u> |
| Special Education Cluster: | | | | |
| Special Education - Preschool Grants | 84.173 | 123521-PGS1-2005 | 58,909 | 61,157 |
| Special Education Grants to States | 84.027 | 123521-6BEC-2005 | <u>12,740</u> | <u>12,982</u> |
| Total Special Education Cluster | | | 71,649 | 74,139 |
| Safe and Drug-Free and Communities National Programs | 84.184 | 123521-T4S1-2004 123521-T4S1-2005 | 8,284 <u>11,250</u> | 8,284 <u>12,500</u> |
| Total Safe and Drug-Free and Communities National Programs | | | <u>19,534</u> | <u>20,784</u> |
| Total U.S. Department of Education | | | 544,414 | 621,263 |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| <i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | |
| Medical Assistance Program | 93.778 | N/A | 782,887 | 782,887 |
| <i>Passed through Richland County Dept of Jobs & Family Services: Passed through North Central State College:</i> | | | | |
| Temporary Assistance for Needy Families | 93.558 | N/A | <u>28,935</u> | <u>28,935</u> |
| Total U.S. Department of Health and Human Services | | | 811,822 | 811,822 |
| <u>U.S. Department of Agriculture</u> | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | |
| <i>Child Nutrition Cluster:</i> | | | | |
| National School Breakfast Program | 10.553 | 123521-05PU-2005 | 64,040 | 64,040 |
| National School Lunch Program | 10.555 | 123521-LLP4-2005 | 112,386 | 112,386 |
| Child and Adult Care Food Program | 10.558 | 123521-CCMO-2005 | 3,733 | 3,733 |
| Total U.S. Department of Agriculture | | | 180,159 | 180,159 |
| <u>U.S. Department of Labor</u> | | | | |
| <i>Passed through Ohio Dept of Job & Family Services: Passed through the Area 10 Workforce Investment Board:</i> | | | | |
| WIA Youth Activities | 17.259 | N/A | <u>223,345</u> | <u>258,586</u> |
| Total U.S. Department of Labor | | | 223,345 | 258,586 |
| Total | | | <u>\$1,759,740</u> | <u>\$1,871,830</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Educational Service Center's management dated March 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Educational Service Center's management dated March 3, 2006, we reported an other matter related to noncompliance we deemed immaterial.

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Mid-Ohio Educational Service Center
Richland County
Independent Accountants' Report on Internal Controls Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

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

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

Betty Montgomery
Auditor of State

March 3, 2006



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

Compliance

We have audited the compliance of Mid-Ohio Educational Service Center, Richland County, Ohio, (the 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 apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The Educational 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 Educational Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Educational Service Center's management in a separate letter dated March 3, 2006.

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

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

Betty Montgomery
Auditor of State

March 3, 2006

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

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): | CFDA # 93.778 – Medical Assistance Program (CAFS); CFDA # 84.215X – Fund for the Improvement of Education |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

**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**

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MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND 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
MARCH 28, 2006**