



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

North Central Ohio Educational Service Center
Seneca County
244 S. Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 8, 2006, on our consideration of the ESC'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 ESC's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure 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 8, 2006

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

The management's discussion and analysis of the North Central 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 the 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 increased \$139,298 which represents a 33.08% increase from 2004.
- General revenues accounted for \$3,245,230 in revenue or 33.86% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,338,454 or 66.14% of total revenues of \$9,583,684.
- The ESC had \$9,444,386 in expenses related to governmental activities; \$6,338,454 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,245,230 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$8,849,611 in revenues and \$8,704,471 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$145,140 from \$552,977 to \$698,117.

Using these Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 8. Fund financial reports provide detailed information about the ESC's major fund. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 13-21 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-43 of this report.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

The ESC as a Whole

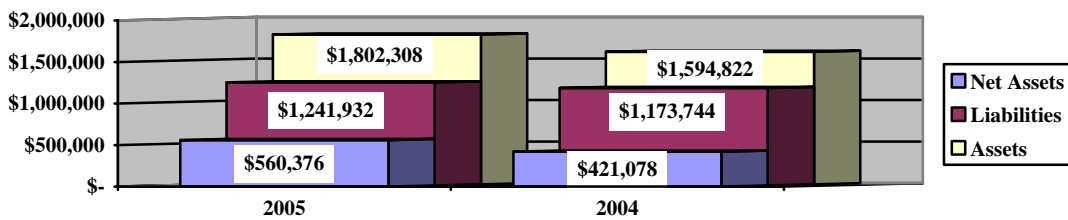
Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

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

| | Net Assets | |
|--|------------------------------------|------------------------------------|
| | Governmental Activities 2005 | Governmental Activities 2004 |
| <u>Assets</u> | | |
| Current and other assets | \$ 1,696,325 | \$ 1,458,674 |
| Capital assets, net | 105,983 | 136,148 |
| Total assets | 1,802,308 | 1,594,822 |
| <u>Liabilities</u> | | |
| Current liabilities | 843,075 | 828,873 |
| Long-term liabilities | 398,857 | 344,871 |
| Total liabilities | 1,241,932 | 1,173,744 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 104,953 | 134,532 |
| Restricted | 19,674 | 17,362 |
| Unrestricted | 435,749 | 269,184 |
| Total net assets | \$ 560,376 | \$ 421,078 |

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 \$560,376. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2005, were \$104,953. These net assets are used to provide services to the students and are not available for future spending. A portion of the ESC's net assets, \$19,674, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$435,749 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

| | Change in Net Assets | |
|---------------------------------------|---|---|
| | Governmental Activities <u>2005</u> | Governmental Activities <u>2004</u> |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 5,641,402 | \$ 5,478,737 |
| Operating grants and contributions | 697,052 | 615,471 |
| General revenues: | | |
| Grants and entitlements, unrestricted | 2,871,051 | 2,566,480 |
| Investment earnings | 33,411 | 11,999 |
| Miscellaneous | <u>340,768</u> | <u>332,024</u> |
| Total revenues | <u>9,583,684</u> | <u>9,004,711</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | 256,289 | 296,004 |
| Special | 3,101,249 | 2,907,511 |
| Support services: | | |
| Pupil | 2,156,901 | 2,209,069 |
| Instructional staff | 1,894,604 | 1,956,918 |
| Board of education | 40,712 | 41,601 |
| Administration | 920,306 | 927,219 |
| Fiscal | 380,554 | 326,093 |
| Business | 90,139 | 117,078 |
| Operations and maintenance | 191,849 | 175,478 |
| Pupil transportation | 14,715 | 15,982 |
| Central | 261,618 | 310,687 |
| Food service operations | 12,688 | 12,219 |
| Intergovernmental pass-through | 122,654 | 97,012 |
| Interest and fiscal charges | <u>108</u> | <u>154</u> |
| Total expenses | <u>9,444,386</u> | <u>9,393,025</u> |
| Change in net assets | 139,298 | (388,314) |
| Net assets at beginning of year | <u>421,078</u> | <u>809,392</u> |
| Net assets at end of year | <u>\$ 560,376</u> | <u>\$ 421,078</u> |

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

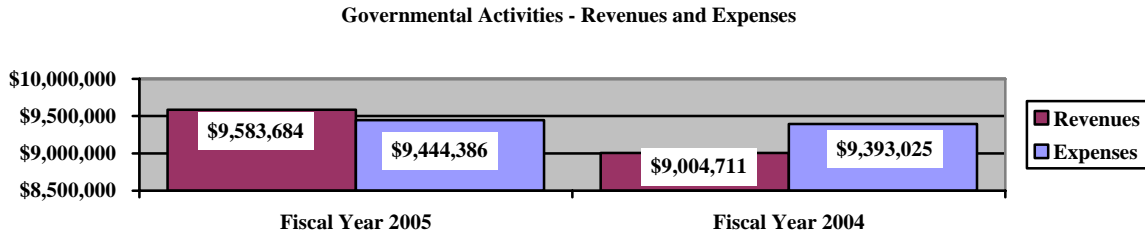
Governmental Activities

Net assets of the ESC's governmental activities increased \$139,298. Total governmental expenses of \$9,444,386 were offset by program revenues of \$6,338,454 and general revenues of \$3,245,230. Program revenues supported 67.11% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services. These revenue sources represent 58.86% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$5,951,398 or 63.02% of total governmental expenses for fiscal 2005.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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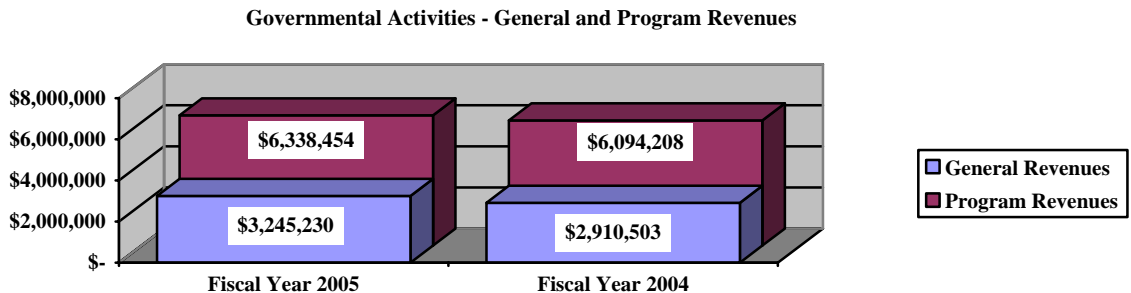
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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 | \$ 256,289 | \$ 166,511 | \$ 296,004 | \$ 245,170 |
| Special | 3,101,249 | 852,621 | 2,907,511 | 811,313 |
| Support services: | | | | |
| Pupil | 2,156,901 | 559,497 | 2,209,069 | 626,799 |
| Instructional staff | 1,894,604 | 465,639 | 1,956,918 | 505,040 |
| Board of education | 40,712 | 40,712 | 41,601 | 41,601 |
| Administration | 920,306 | 134,362 | 927,219 | 168,806 |
| Fiscal | 380,554 | 371,751 | 326,093 | 316,852 |
| Business | 90,139 | 90,139 | 117,078 | 117,078 |
| Operations and maintenance | 191,849 | 173,256 | 175,478 | 160,042 |
| Pupil transportation | 14,715 | 14,715 | 15,982 | 15,982 |
| Central | 261,618 | 244,862 | 310,687 | 290,323 |
| Food service operations | 12,688 | 1,250 | 12,219 | 370 |
| Intergovernmental pass-through | 122,654 | (9,491) | 97,012 | (713) |
| Interest and fiscal charges | 108 | 108 | 154 | 154 |
| Total expenses | \$ 9,444,386 | \$ 3,105,932 | \$ 9,393,025 | \$ 3,298,817 |

The dependence unrestricted grants and entitlements and other general revenues for governmental activities is apparent, 30.35% of instruction activities are supported through general revenues. For all governmental activities, general revenue support is 32.89%. The ESC's contract services, as a whole, are by far the primary support for the ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2005 and 2004.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$827,021, which is higher than last year's total of \$604,955. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

**NORTH CENTRAL 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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(Continued)**

| | <u>Fund Balance June 30, 2005</u> | <u>Fund Balance June 30, 2004</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|--------------------|---------------------------------------|---------------------------------------|--------------------------------|------------------------------|
| General | \$ 698,117 | \$ 552,977 | \$ 145,140 | 26.25 % |
| Other Governmental | <u>128,904</u> | <u>51,978</u> | <u>76,926</u> | 148.00 % |
| Total | <u>\$ 827,021</u> | <u>\$ 604,955</u> | <u>\$ 222,066</u> | 36.71 % |

General Fund

The ESC's general fund balance increased by \$145,140. The increase in fund balance can be attributed to several items related to the increase in revenues, and the decrease in expenditures. Revenues exceeded expenditures in year 2005 by \$189,854. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | <u>2005 Amount</u> | <u>2004 Amount</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|-------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| <u>Revenues</u> | | | | |
| Contract services | \$ 5,604,772 | \$ 5,373,146 | \$ 231,626 | 4.31 % |
| Earnings on investments | 33,020 | 11,999 | 21,021 | 175.19 % |
| Intergovernmental | 2,871,051 | 2,566,480 | 304,571 | 11.87 % |
| Other revenues | <u>340,768</u> | <u>333,774</u> | <u>6,994</u> | 2.10 % |
| Total | <u>\$ 8,849,611</u> | <u>\$ 8,285,399</u> | <u>\$ 564,212</u> | 6.81 % |

| | <u>2005 Amount</u> | <u>2004 Amount</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|----------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| <u>Expenditures</u> | | | | |
| Instruction | \$ 3,258,050 | \$ 3,142,660 | \$ 115,390 | 3.67 % |
| Support services | 5,401,013 | 5,518,536 | (117,523) | (2.13) % |
| Debt service | <u>694</u> | <u>696</u> | <u>(2)</u> | (0.29) % |
| Total | <u>\$ 8,659,757</u> | <u>\$ 8,661,892</u> | <u>\$ (2,135)</u> | (0.02) % |

General Fund Budgeting Highlights

The ESC's budget is prepared according to the requirements specified by the Board of Education 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 2005, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,361,390 and final budgeted revenues and other financing sources were \$8,770,635. Actual revenues and other financing sources for fiscal 2005 was \$8,876,654. This represents a \$106,019 increase from final budgeted revenues.

**NORTH CENTRAL 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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(Continued)**

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,500,077 were increased to \$9,899,439 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$8,683,564, which was \$1,215,875 less than the final budget appropriations.

Variances between original and final budgeted expenditures were caused by the ESC's decision to conservatively budget both revenue and expenditures. The ESC has made efforts to reduce expenses of the ESC in the areas of salary and payroll related benefits.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the ESC had \$105,983 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

| | Governmental Activities | |
|-------------------------|-------------------------|------------|
| | 2005 | 2004 |
| Furniture and equipment | \$ 105,983 | \$ 136,148 |
| Total | \$ 105,983 | \$ 136,148 |

The overall decrease in capital assets of \$30,165 is due primarily to depreciation expense of \$54,530 in the fiscal year.

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

Debt Administration

At June 30, 2005, the ESC had \$1,030 in capital lease obligations outstanding. Of this total, \$636 is due within one year and \$394 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

| | Governmental Activities | Governmental Activities |
|---------------------------|----------------------------|----------------------------|
| | 2005 | 2004 |
| Capital lease obligations | \$ 1,030 | \$ 1,616 |
| Total | \$ 1,030 | \$ 1,616 |

See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

**NORTH CENTRAL 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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(Continued)**

Current Financial Related Activities

The ESC continues to contend with the issue of cash flow. While fiscal year 2005 showed an ending cash balance in the general fund \$359,240 higher than fiscal year 2004, \$193,395 of this increase was due to the receipt of federal funds, the majority of which should have been received in fiscal year 2004. These funds, as noted in the fiscal year 2004 management's discussion and analysis, are part of the Federal Community Alternative Funding System (CAFS). While these funds did flow during fiscal year 2005, this program will no longer be available. There are differences of opinion between the Ohio Department of Job and Family Services, the state governing agency for CAFS and MCS, the federal governing agency, as to the CAFS plan for Ohio. It is anticipated that there will be a similar program in the future, but when this will happen, and the extent to which schools will be able to participate are uncertain at this time. The following are some measures have been taken by leadership at the ESC to address the need to replace the loss of CAFS funding:

1. Salaries were frozen for the 2005-2006 school year. Increases are anticipated for the following years based primarily on programs/services fee changes and other cost reduction measures.
2. One support staff position was vacated, and not replaced. One other support staff position was eliminated.
3. The print shop was closed, and printing clerk re-assigned due to longevity with the ESC.
4. Machinery from the print shop will be sold as soon as possible.
5. Charges for ESC services and programs were modified to include some costs previously absorbed by the ESC, with more costs to be made part of the 2006-2007 charges.
6. A four percent administrative fee was instituted for all ESC services and programs.
7. The total pool provided by the ESC governing board for tuition reimbursement was decreased to \$10,000.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Mary F. Hay, Treasurer, North Central Ohio Educational Service Center, 244 S. Washington Street, Tiffin, Ohio 44883-2888.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 1,464,365 |
| Cash with fiscal agent. | 152,572 |
| Receivables: | |
| Intergovernmental | 61,832 |
| Prepayments | 17,556 |
| Capital assets: | |
| Depreciable capital assets, net | 105,983 |
| Total assets. | 1,802,308 |
| Liabilities: | |
| Accounts payable. | 6,572 |
| Accrued wages and benefits | 679,012 |
| Pension obligation payable. | 108,428 |
| Intergovernmental payable | 49,063 |
| Long-term liabilities: | |
| Due within one year. | 79,449 |
| Due within more than one year | 319,408 |
| Total liabilities | 1,241,932 |
| Net Assets: | |
| Invested in capital assets, net | |
| of related debt. | 104,953 |
| Restricted for: | |
| State funded programs. | 8,704 |
| Federally funded programs. | 10,970 |
| Unrestricted. | 435,749 |
| Total net assets | \$ 560,376 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|---|---------------------|---|---|--|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 256,289 | \$ 36,572 | \$ 53,206 | \$ (166,511) |
| Special | 3,101,249 | 2,248,628 | - | (852,621) |
| Support services: | | | | |
| Pupil. | 2,156,901 | 1,577,427 | 19,977 | (559,497) |
| Instructional staff | 1,894,604 | 1,326,359 | 102,606 | (465,639) |
| Board of education | 40,712 | - | - | (40,712) |
| Administration. | 920,306 | 449,125 | 336,819 | (134,362) |
| Fiscal. | 380,554 | - | 8,803 | (371,751) |
| Business. | 90,139 | - | - | (90,139) |
| Operations and maintenance | 191,849 | - | 18,593 | (173,256) |
| Pupil transportation. | 14,715 | - | - | (14,715) |
| Central | 261,618 | - | 16,756 | (244,862) |
| Operation of non-instructional services: | | | | |
| Food service operations | 12,688 | 3,291 | 8,147 | (1,250) |
| Intergovernmental pass-through. | 122,654 | - | 132,145 | 9,491 |
| Interest and fiscal charges | 108 | - | - | (108) |
| Total governmental activities | <u>\$ 9,444,386</u> | <u>\$ 5,641,402</u> | <u>\$ 697,052</u> | <u>(3,105,932)</u> |

General Revenues:

| | |
|--|-------------------|
| Grants and entitlements not restricted | |
| to specific programs. | 2,871,051 |
| Investment earnings | 33,411 |
| Miscellaneous | 340,768 |
| Total general revenues. | <u>3,245,230</u> |
| Change in net assets | 139,298 |
| Net assets at beginning of year | <u>421,078</u> |
| Net assets at end of year | <u>\$ 560,376</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|---|
| Assets: | | | |
| Equity in pooled cash | | | |
| and cash equivalents | \$ 1,319,589 | \$ 144,776 | \$ 1,464,365 |
| Cash with fiscal agent | 152,572 | - | 152,572 |
| Receivables: | | | |
| Intergovernmental | 60,865 | 967 | 61,832 |
| Prepayments | 17,556 | - | 17,556 |
| Total assets | \$ 1,550,582 | \$ 145,743 | \$ 1,696,325 |
| Liabilities: | | | |
| Accounts payable | \$ 5,008 | \$ 1,564 | \$ 6,572 |
| Accrued wages and benefits | 669,890 | 9,122 | 679,012 |
| Compensated absences payable | 19,950 | - | 19,950 |
| Pension obligation payable. | 104,008 | 4,420 | 108,428 |
| Intergovernmental payable. | 47,330 | 1,733 | 49,063 |
| Deferred revenue. | 6,279 | - | 6,279 |
| Total liabilities | 852,465 | 16,839 | 869,304 |
| Fund Balances: | | | |
| Reserved for encumbrances | 18,196 | 12,554 | 30,750 |
| Reserved for termination benefits | - | 40,324 | 40,324 |
| Reserved for prepayments | 17,556 | - | 17,556 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 662,365 | - | 662,365 |
| Special revenue funds. | - | 76,026 | 76,026 |
| Total fund balances | 698,117 | 128,904 | 827,021 |
| Total liabilities and fund balances | \$ 1,550,582 | \$ 145,743 | \$ 1,696,325 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

| | | |
|--|--------------|------------------------------|
| Total governmental fund balances | \$ | 827,021 |
| <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. | | 105,983 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Contract service revenue | \$ 6,279 | |
| Total | | 6,279 |
| Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | 377,877 | |
| Capital lease obligation | <u>1,030</u> | |
| Total | | <u>(378,907)</u> |
| Net assets of governmental activities | \$ | <u><u>560,376</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|--------------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Charges for services | \$ - | \$ 3,291 | \$ 3,291 |
| Earnings on investments. | 33,020 | 391 | 33,411 |
| Other local revenues. | 340,768 | 64,161 | 404,929 |
| Contract service revenue | 5,604,772 | - | 5,604,772 |
| Intergovernmental - State. | 2,260,761 | 540,620 | 2,801,381 |
| Intergovernmental - Federal | 610,290 | 156,432 | 766,722 |
| Total revenue | <u>8,849,611</u> | <u>764,895</u> | <u>9,614,506</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 183,599 | 69,435 | 253,034 |
| Special. | 3,074,451 | 5,837 | 3,080,288 |
| Support services: | | | |
| Pupil. | 2,138,122 | 19,977 | 2,158,099 |
| Instructional staff | 1,778,568 | 111,291 | 1,889,859 |
| Board of education | 40,112 | 600 | 40,712 |
| Administration. | 569,964 | 344,981 | 914,945 |
| Fiscal | 369,920 | 9,871 | 379,791 |
| Business | 85,721 | - | 85,721 |
| Operations and maintenance. | 171,930 | 18,593 | 190,523 |
| Pupil transportation | 14,715 | - | 14,715 |
| Central. | 231,961 | 16,756 | 248,717 |
| Food service operations | - | 12,688 | 12,688 |
| Intergovernmental pass through | - | 122,654 | 122,654 |
| Debt service: | | | |
| Principal retirement | 586 | - | 586 |
| Interest and fiscal charges | 108 | - | 108 |
| Total expenditures | <u>8,659,757</u> | <u>732,683</u> | <u>9,392,440</u> |
| Excess of revenues over expenditures | <u>189,854</u> | <u>32,212</u> | <u>222,066</u> |
| Other financing sources (uses): | | | |
| Transfers in | - | 44,714 | 44,714 |
| Transfers (out). | (44,714) | - | (44,714) |
| Total other financing sources (uses) | <u>(44,714)</u> | <u>44,714</u> | <u>-</u> |
| Net change in fund balances | 145,140 | 76,926 | 222,066 |
| Fund balances at beginning of year | 552,977 | 51,978 | 604,955 |
| Fund balances at end of year. | <u>\$ 698,117</u> | <u>\$ 128,904</u> | <u>\$ 827,021</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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 \$ 222,066

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

| | | | |
|---------------------------|----|-----------------|--------------|
| Capital asset additions | \$ | 25,224 | |
| Current year depreciation | | <u>(54,530)</u> | |
| Total | | | (29,306) |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (859)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (30,822)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 586

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (22,367)

Change in net assets of governmental activities \$ 139,298

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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: | | | | |
| Earnings on investments. | \$ 26,315 | \$ 27,100 | \$ 28,360 | 1,260 |
| Other local revenues | 322,790 | 340,170 | 343,862 | 3,692 |
| Intergovernmental - State | 2,110,968 | 2,224,629 | 2,260,761 | 36,132 |
| Intergovernmental - Federal. | 579,109 | 610,290 | 610,290 | - |
| Contract service revenue | <u>5,273,745</u> | <u>5,557,701</u> | <u>5,630,274</u> | <u>72,573</u> |
| Total revenue | <u>8,312,927</u> | <u>8,759,890</u> | <u>8,873,547</u> | <u>113,657</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 216,846 | 220,848 | 196,884 | 23,964 |
| Special. | 3,541,240 | 3,875,069 | 3,033,297 | 841,772 |
| Support services: | | | | |
| Pupil. | 2,204,427 | 2,282,364 | 2,154,900 | 127,464 |
| Instructional staff | 1,827,806 | 1,848,267 | 1,777,789 | 70,478 |
| Board of education | 91,703 | 46,703 | 40,593 | 6,110 |
| Administration. | 622,559 | 615,316 | 549,651 | 65,665 |
| Fiscal | 391,147 | 392,928 | 367,222 | 25,706 |
| Business | 98,766 | 98,767 | 85,710 | 13,057 |
| Operations and maintenance. | 187,731 | 189,057 | 177,747 | 11,310 |
| Pupil transportation | 21,655 | 21,655 | 17,285 | 4,370 |
| Central. | <u>263,495</u> | <u>267,863</u> | <u>236,799</u> | <u>31,064</u> |
| Total expenditures | <u>9,467,375</u> | <u>9,858,837</u> | <u>8,637,877</u> | <u>1,220,960</u> |
| Excess of revenues over (under) expenditures. | <u>(1,154,448)</u> | <u>(1,098,947)</u> | <u>235,670</u> | <u>1,334,617</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 38,973 | 745 | 973 | 228 |
| Transfers (out) | (32,702) | (40,602) | (45,687) | (5,085) |
| Advances in. | <u>9,490</u> | <u>10,000</u> | <u>2,134</u> | <u>(7,866)</u> |
| Total other financing sources (uses) | <u>15,761</u> | <u>(29,857)</u> | <u>(42,580)</u> | <u>(12,723)</u> |
| Net change in fund balance | (1,138,687) | (1,128,804) | 193,090 | 1,321,894 |
| Fund balance at beginning of year. | 1,222,204 | 1,222,204 | 1,222,204 | - |
| Prior year encumbrances appropriated | <u>35,493</u> | <u>35,493</u> | <u>35,493</u> | <u>-</u> |
| Fund balance at end of year | <u>\$ 119,010</u> | <u>\$ 128,893</u> | <u>\$ 1,450,787</u> | <u>\$ 1,321,894</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 4,503 | \$ 203,895 |
| Prepayments. | - | 86 |
| Receivables: | | |
| Intergovernmental | - | 43,619 |
| | 4,503 | 247,600 |
| Total assets. | 4,503 | \$ 247,600 |
| Liabilities: | | |
| Accounts payable. | - | \$ 23,228 |
| Intergovernmental payable | - | 52,829 |
| Due to students | - | 171,543 |
| | - | 247,600 |
| Total liabilities | - | \$ 247,600 |
| Net Assets: | | |
| Held in trust for scholarships | 4,503 | |
| Total net assets | \$ 4,503 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 56 |
| Gifts and contributions. | 1,000 |
| | 1,056 |
| Deductions: | |
| Scholarships awarded | 6,000 |
| Change in net assets | (4,944) |
| Net assets at beginning of year | 9,447 |
| Net assets at end of year. | \$ 4,503 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Seneca and Wyandot Counties. The board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agency for the Seneca County Family and Children First Council (The Council) with the rights and responsibilities established by § 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular, vocational, and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, and facilities acquisitions. The ESC is staffed by 71 non-certificated employees and 99 certificated employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. The ESC paid \$21,598 to NOECA during fiscal year 2005. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the "Council")

The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions, and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our 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 membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk and New Riegel, and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the ESC are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) for grants and other resources whose use is restricted to a particular purpose; or (c) for food service operations.

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 proprietary funds.

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's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. 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. Fiduciary funds also use the accrual basis of accounting.

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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: donations, interest, tuition, grants, entitlements and contract services.

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

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The ESC's Board does not budget for resources estimated to be received during the fiscal year.

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). 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 Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$33,020, which includes \$5,730 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 year-end is provided in Note 4.

G. Capital Assets

Capital 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 any infrastructure.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

H. Interfund Balances

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

I. 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 with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 10 for detail on compensated absences).

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, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

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

L. Net Assets

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

M. 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.

N. 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.

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

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

O. Interfund Activity

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

P. 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 Board of Education 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

For fiscal year 2005, the ESC implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 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.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have any effect on financial statements of the ESC, however additional note disclosure required by GASB Statement No. 40 can be found in Note 4.

B. Deficit Fund Balances

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

| <u>Nonmajor Funds</u> | <u>Deficit</u> |
|-----------------------|----------------|
| Education Foundation | \$ 18 |
| Entry Year Programs | 80 |
| Title I | 27 |

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at 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 Board of Education 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.

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which is included on the financial statements as "Cash with 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 \$152,572.

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all ESC deposits was \$62,777. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$547,872 of the ESC's bank balance of \$647,872 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

C. Investments

As of June 30, 2005, the ESC had the following investment and maturity:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturity</u> 6 months or less |
|------------------------|-------------------|---|
| STAR Ohio | \$ 1,609,986 | \$ 1,609,986 |

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. 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 is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

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:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|-------------------|-------------------|
| STAR Ohio | \$ 1,609,986 | 100.00% |

D. Reconciliation of Cash and Investment 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 | \$ 62,777 |
| Investments | 1,609,986 |
| Cash with fiscal agent | 152,572 |
| Total | <u>\$ 1,825,335</u> |

| <u>Cash and investments per Statement of Net Assets</u> | |
|---|---------------------|
| Governmental activities | \$ 1,616,937 |
| Private-purpose trust funds | 4,503 |
| Agency funds | 203,895 |
| Total | <u>\$ 1,825,335</u> |

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

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

| | |
|--|-----------|
| Transfers to Nonmajor Governmental funds from: | |
| General Fund | \$ 44,714 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to 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 on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

| | |
|---------------------------------|------------------|
| Governmental Activities: | |
| Intergovernmental | \$ <u>61,832</u> |

All receivables are expected to be collected within subsequent years.

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 | | | | |
| Furniture and equipment | \$ 528,584 | \$ 25,224 | \$ (44,127) | \$ 509,681 |
| Total capital assets, being depreciated | <u>528,584</u> | <u>25,224</u> | <u>(44,127)</u> | <u>509,681</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Furniture and equipment | <u>(392,436)</u> | <u>(54,530)</u> | <u>43,268</u> | <u>(403,698)</u> |
| Total accumulated depreciation | <u>(392,436)</u> | <u>(54,530)</u> | <u>43,268</u> | <u>(403,698)</u> |
| Governmental activities capital assets, net | <u>\$ 136,148</u> | <u>\$ (29,306)</u> | <u>\$ (859)</u> | <u>\$ 105,983</u> |

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

NOTE 7 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------|------------------|
| <u>Instruction:</u> | |
| Regular | \$ 2,653 |
| Special | 8,372 |
| <u>Support Services:</u> | |
| Pupil | 9,674 |
| Instructional staff | 6,313 |
| Administration | 6,045 |
| Fiscal | 1,933 |
| Business | 3,440 |
| Operations and maintenance | 2,826 |
| Central | <u>13,274</u> |
| Total depreciation expense | <u>\$ 54,530</u> |

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior year, the ESC entered into capitalized leases for fax equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in an amount equal to the present value of the future minimum lease payment at the date of their inception. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$586 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease 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 | \$ 696 |
| 2007 | <u>404</u> |
| Total minimum lease payments | 1,100 |
| Less amount representing interest | <u>(70)</u> |
| Total | <u>\$ 1,030</u> |

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

NOTE 9 - LONG-TERM OBLIGATIONS

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

| | Balance Outstanding <u>06/30/04</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>06/30/05</u> | Amounts Due in <u>One Year</u> |
|---|---|-------------------|--------------------|---|--------------------------------------|
| Governmental Activities: | | | | | |
| Compensated absence payable | \$ 343,255 | \$ 116,089 | \$ (61,517) | \$ 397,827 | \$ 78,813 |
| Capital lease obligation | <u>1,616</u> | <u>-</u> | <u>(586)</u> | <u>1,030</u> | <u>636</u> |
| Total long-term obligations, governmental activities | <u>\$ 344,871</u> | <u>\$ 116,089</u> | <u>\$ (62,103)</u> | <u>\$ 398,857</u> | <u>\$ 79,449</u> |

Compensated absences will ultimately be paid from the fund from which the employee is paid. The capital lease obligation is further described in Note 8.

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement:

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the State or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 10 - COMPENSATED ABSENCES – (Continued)

6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued but unused sick leave will be multiplied by one-fourth and
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Joint Self-Insurance Association (the "Association"). This organization is a public entity risk pool (see Note 2.A.). The Association was established pursuant to ORC 9.833 in order to provide health care benefits.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 11 - RISK MANAGEMENT – (Continued)

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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.

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

NOTE 12 - DEFINED BENEFIT PENSION PLAN – (Continued)

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 \$182,320, \$185,844 and \$157,720, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

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.

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

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$627,274, \$620,435, and \$420,147, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$6,849 made by the ESC and \$6,630 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For 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 \$44,805 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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. Net expenses for health care at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$62,573 during the 2005 fiscal year.

NOTE 14 - 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and 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).

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ 193,090 |
| Net adjustment for revenue accruals | (23,936) |
| Net adjustment for expenditure accruals | (43,254) |
| Net adjustment for other sources/uses | (2,134) |
| Adjustment for encumbrances | <u>21,374</u> |
| GAAP basis | <u>\$ 145,140</u> |

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is party to legal proceedings seeking damages generally incidental to its operations and spending projects. The ESC management is of the opinion that the claim and legal proceedings will not have a material effect, if any, on the financial condition of the ESC.

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**NORTH CENTRAL OHIO EDUCATION SERVICE CENTER
SENECA COUNTY**

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

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|--|----------------------------------|---------------------------|------------------|------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| National School Lunch Program | 123257-LLP4-2004 | 10.555 | \$1,748 | \$1,748 |
| | 123257-LLP4-2005 | | 6,292 | 6,292 |
| Total U.S. Department of Agriculture | | | 8,040 | 8,040 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Special Education - Preschool Grant | 123257-PGS1-2004 | 84.173 | 3,305 | 1,630 |
| | 123257-PGS1-2005 | | 132,145 | 117,936 |
| Total Special Education | | | 135,450 | 119,566 |
| Title I Grants to Local Educational Agencies | 123257-C1SD-2005 | 84.010 | 16,140 | 16,077 |
| Total U.S. Department of Education | | | 151,590 | 135,643 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| <i>Passed Through Ohio Department of MRDD:</i> | | | | |
| Medicaid Assistance Program | MRDD - FY04 | 93.778 | 176,144 | 176,144 |
| | MRDD - FY05 | | 384,769 | 384,769 |
| Total Medicaid Assistance Program | | | 560,913 | 560,913 |
| State Children Health Insurance Program | MRDD - FY04 | 93.767 | 17,133 | 17,133 |
| | MRDD - FY05 | | 32,244 | 32,244 |
| Total State Children Health Insurance Program | | | 49,377 | 49,377 |
| Total U.S. Department of Health and Human Services | | | 610,290 | 610,290 |
| Total | | | \$769,920 | \$753,973 |

The accompanying notes are an integral part of this schedule.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the ESC's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – NATIONAL SCHOOL LUNCH PROGRAM

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the ESC contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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**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***

North Central Ohio Educational Service Center
Seneca County
244 S. Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2005, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting 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 ESC's management dated March 8, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the ESC'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*.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, Board of Education, 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 8, 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

North Central Ohio Educational Service Center
Seneca County
244 S. Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

Compliance

We have audited the compliance of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal program. The ESC'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 ESC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *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 ESC'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 ESC's compliance with those requirements.

In our opinion, the North Central Ohio Educational Service Center, Seneca County, Ohio complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The ESC'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 ESC'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*.

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.

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



Betty Montgomery
Auditor of State

March 8, 2006

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA 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 noncompliance 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 | No |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Medical Assistance Program CFDA #93.778 |
| <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**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA 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**