



**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wood County Educational Service Center (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, each major fund, and the aggregate remaining fund information of Wood County Educational Service Center, 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 16, 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.

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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.



Betty Montgomery
Auditor of State

March 16, 2006

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

The discussion and analysis of Wood County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Key highlights for fiscal year 2005 are as follows:

- Total net assets increased by \$428,086, almost 10 percent from the prior fiscal year. Much of this increase is the result of an increase in customer services revenues as well as a decrease in expenses.
- During fiscal year 2005, construction was completed on a 20,000 square foot office facility to house the Educational Service Center. There is no debt outstanding on this building.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Wood County Educational Service Center as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For the Educational Service Center, the General Fund and the Building capital projects fund are the most significant funds.

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

In the statement of net assets and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities including instruction, support services, non-instructional services, and intergovernmental activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major funds are the General Fund and the Building capital projects fund.

Governmental Funds - Most of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2005 compared to fiscal year 2004:

**Table 1
Net Assets**

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$4,720,090	\$5,907,634
Capital Assets, Net	2,306,515	376,266
Total Assets	7,026,605	6,283,900
<u>Liabilities:</u>		
Current and Other Liabilities	1,659,354	1,359,701
Long-Term Liabilities	541,054	526,088
Total Liabilities	2,200,408	1,885,789

(continued)

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

**Table 1
Net Assets
(continued)**

	Governmental Activities	
	2005	2004
<u>Net Assets:</u>		
Invested in Capital Assets	\$2,306,515	\$376,266
Restricted	741,414	678,745
Unrestricted	1,778,268	3,343,100
Total Net Assets	\$4,826,197	\$4,398,111

While overall net assets increased about 10 percent from the prior fiscal year, a review of the above table reflects some sizable changes. The decrease in current and other assets (specifically cash and cash equivalents) is the result of monies being spent for the construction of the new office facility. A corresponding increase is reflected in capital assets. In addition, a similar increase and decrease is reflected in invested in capital assets and unrestricted net assets.

Table 2 reflects the changes in net assets for fiscal year 2005 and 2004.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2005	2004
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$9,422,631	\$8,728,918
Operating Grants, Contributions	3,405,700	4,900,509
Capital Grants and Contributions		52,500
Total Program Revenues	12,828,331	13,681,927
General Revenues		
Grants and Entitlements	605,852	584,324
Interest	129,608	125,589
Gifts and Donations	200	1,101
Miscellaneous	81,123	21,737
Total General Revenues	816,783	732,751
Total Revenues	13,645,114	14,414,678

(continued)

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

**Table 2
Change in Net Assets
(continued)**

	Governmental Activities	
	2005	2004
<u>Expenses:</u>		
Instruction:		
Regular	\$970,694	\$1,038,161
Special	4,747,098	4,588,910
Adult/Continuing	33,684	15,030
Support Services:		
Pupils	2,096,913	1,956,458
Instructional Staff	2,763,023	2,620,008
Board of Education	37,140	50,199
Administration	1,505,475	1,484,599
Fiscal	429,334	378,375
Operation and Maintenance of Plant	84,182	54,868
Pupil Transportation	62,236	67,899
Central	145,441	152,610
Non-Instructional Services	12,536	9,765
Extracurricular Activities	28,799	
Intergovernmental	300,473	1,148,502
Total Expenses	<u>13,217,028</u>	<u>13,565,384</u>
Decrease in Net Assets	<u>\$428,086</u>	<u>\$849,294</u>

Program revenues were 94 percent of total revenues for fiscal year 2005 (matching the amount for fiscal year 2004) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 69 percent of total revenues. Total revenues, as well as total expenses, decreased in fiscal year 2005 due to the Educational Service Center no longer being the fiscal agent for federal IDEA Part B funds. The services being charged to the school districts involve various instruction and support services. The Educational Service Center provides services to six local, two exempted village, and one city school district in Northwest Ohio, as well as some services to various other area school districts and agencies, both within and outside Wood County.

Charges for special instruction make up the majority of the charges for services with significant levels of regular instruction services as well.

Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget, with 36 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, visual impaired, orthopedic impaired, autistic, emotional disturbed, cognitive and specific learning disabled, and preschool disabled children.

Regular instruction costs (7 percent of total expenses) include opportunity programs, alternative programs, suspension programs, reading recovery services, regular education substitute services, and intervention tutors.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

Expenses for the services of a nurse, school psychologist, audiologist, speech therapist, adapted physical education instructors, occupational therapist, and physical therapist represented 21 percent of overall expenses and are reflected as instructional staff support services.

Pupil support services were 16 percent of total expenses. These expenses include the costs of supervisors, school improvement specialists, secretaries, child information management specialists, paraprofessionals (teacher aides), and a technology director.

Intergovernmental expenses include the Reading Mentoring, Autism Project, Get It Got It Go, Psych Intern, and Preschool Handicapped grants. These are flow-through grant resources received and spent by the Educational Service Center on behalf of the school districts.

Overall, expenses for fiscal year 2005 were very comparable to fiscal year 2004.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$970,694	\$1,038,161	(\$938,556)	(\$623,269)
Special	4,747,098	4,588,910	(4,220,765)	(4,498,052)
Adult/Continuing	33,684	15,030	29,567	(14,665)
Support Services:				
Pupils	2,096,913	1,956,458	1,216,192	1,076,308
Instructional Staff	2,763,023	2,620,008	2,201,890	2,070,780
Board of Education	37,140	50,199	37,140	50,199
Administration	1,505,475	1,484,599	1,373,180	1,264,198
Fiscal	429,334	378,375	403,064	361,088
Operation and Maintenance of Plant	84,182	54,868	80,855	52,584
Pupil Transportation	62,236	67,899	13,586	19,821
Central	145,441	152,610	135,217	144,246
Non-Instructional Services	12,536	9,765	(4,446)	(2,398)
Extracurricular Activities	28,799		28,799	
Intergovernmental	300,473	1,148,502	32,974	(17,383)
Total Expenses	<u>\$13,217,028</u>	<u>\$13,565,384</u>	<u>\$388,697</u>	<u>(\$116,543)</u>

Over 94 percent of the Educational Service Center's costs for providing services are supported by program revenues. Funding for gifted units and preschool units are provided by the State based on the degree and experience of the staff employed in those positions. These units have been and continue to be funded well below actual costs. The remaining costs are covered by general revenues.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular, special, and adult/continuing instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils and instructional staff support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special and regular instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. For fiscal year 2005, the General Fund's revenues exceeded expenditures by \$691,410 and other governmental funds basically broke even. Due to completing the construction of the new office facility, expenditures exceeded revenues for the Building capital projects fund.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Board requirements and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2005, the Educational Service Center amended its General Fund budget as needed. The Board adopts an annual appropriations resolution. A review of the budgetary activity of the General Fund reveals that changes from the original budget to the final budget were insignificant as were the changes from the final budget to actual expenditures made.

Capital Assets

At June 30, 2005, the Educational Service Center had \$2,306,515 invested in capital assets (net of accumulated depreciation), an increase of \$1,930,249. The increase is due to construction costs of the new office facility. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Current Issues

No increase in funding from the State is expected for fiscal years 2005 or 2006. Costs for services will continue to increase due to salary schedule increases and years of experience increases. Insurance costs will continue their trend of increasing costs. Since the Educational Service Center charges school districts for services based on costs, charges for services will increase in fiscal year 2006.

In 2002, the Ohio General Assembly approved Amended Substitute House Bill 94, the State operating budget bill for the 124th General Assembly. Originally introduced as the "Education Budget", the legislation in its final form contained a provision providing boards of county commissioners with a graduated five-year phase out of the state mandate to provide office space, utilities, and equipment to educational service centers. In fiscal year 2005, the Wood County Commissioners charged the Educational Service Center 60 percent of the costs of the debt service requirements and operational costs of the 639 South Dunbridge office facility. The percentage charged to the Educational Service Center would have finally been fully phased in at 100 percent in fiscal year 2007 had the Educational Service Center not moved forward and built our own facility.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gina R. Fernbaugh, Treasurer/CFO, Wood County Educational Service Center, 1867 North Research Drive, Bowling Green, Ohio 43402-8835.

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**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Statement of Net Assets
June 30, 2005**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,052,507
Accounts Receivable	83,705
Accrued Interest Receivable	9,482
Intergovernmental Receivable	461,145
Prepaid Items	113,251
Nondepreciable Capital Assets	112,500
Depreciable Capital Assets, Net	<u>2,194,015</u>
Total Assets	<u>7,026,605</u>
 <u>Liabilities:</u>	
Accounts Payable	25,749
Contracts Payable	85,549
Accrued Wages and Benefits Payable	1,291,021
Matured Compensated Absences Payable	7,441
Retainage Payable	3,667
Intergovernmental Payable	245,927
Long-Term Liabilities:	
Due Within One Year	74,742
Due in More Than One Year	<u>466,312</u>
Total Liabilities	<u>2,200,408</u>
 <u>Net Assets:</u>	
Invested in Capital Assets	2,306,515
Restricted For Other Purposes	741,414
Unrestricted	<u>1,778,268</u>
Total Net Assets	<u><u>\$4,826,197</u></u>

See Accompanying Notes to Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$970,694	\$1,016,898	\$892,352	\$938,556
Special	4,747,098	7,532,416	1,435,447	4,220,765
Adult/Continuing	33,684	610	3,507	(29,567)
Support Services:				
Pupils	2,096,913	288,862	591,859	(1,216,192)
Instructional Staff	2,763,023	365,031	196,102	(2,201,890)
Board of Education	37,140			(37,140)
Administration	1,505,475	129,045	3,250	(1,373,180)
Fiscal	429,334	26,270		(403,064)
Operation and Maintenance of Plant	84,182	3,327		(80,855)
Pupil Transportation	62,236	48,650		(13,586)
Central	145,441	6,954	3,270	(135,217)
Non-Instructional Services	12,536	3,222	13,760	4,446
Extracurricular Activities	28,799			(28,799)
Intergovernmental	300,473	1,346	266,153	(32,974)
Total Governmental Activities	<u>\$13,217,028</u>	<u>\$9,422,631</u>	<u>\$3,405,700</u>	<u>(388,697)</u>
 <u>General Revenues:</u>				
Grants and Entitlements not Restricted to Specific Programs				605,852
Interest				129,608
Gifts and Donations				200
Miscellaneous				81,123
Total General Revenues				<u>816,783</u>
Change in Net Assets				428,086
Net Assets at Beginning of Year				<u>4,398,111</u>
Net Assets at End of Year				<u>\$4,826,197</u>

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,260,805	\$97,527	\$694,175	\$4,052,507
Accounts Receivable			83,705	83,705
Accrued Interest Receivable	9,482			9,482
Intergovernmental Receivable	213,810		247,335	461,145
Interfund Receivable	151,813		4,947	156,760
Prepaid Items	104,353		8,898	113,251
Total Assets	<u>\$3,740,263</u>	<u>\$97,527</u>	<u>\$1,039,060</u>	<u>\$4,876,850</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$13,263	\$0	\$12,486	\$25,749
Contracts Payable		\$85,549		85,549
Accrued Wages and Benefits Payable	1,208,056		82,965	1,291,021
Matured Compensated Absences Payable	7,441			7,441
Retainage Payable		3,667		3,667
Intergovernmental Payable	202,302		43,625	245,927
Interfund Payable			156,760	156,760
Deferred Revenue	4,612		101,108	105,720
Total Liabilities	<u>1,435,674</u>	<u>89,216</u>	<u>396,944</u>	<u>1,921,834</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	45,623	6,175	122,151	173,949
Unreserved, Reported in:				
General Fund	2,258,966			2,258,966
Special Revenue Funds			519,965	519,965
Capital Projects Fund		2,136		2,136
Total Fund Balances	<u>2,304,589</u>	<u>8,311</u>	<u>642,116</u>	<u>2,955,016</u>
Total Liabilities and Fund Balances	<u>\$3,740,263</u>	<u>\$97,527</u>	<u>\$1,039,060</u>	<u>\$4,876,850</u>

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances		\$2,955,016
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,306,515
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	74,067	
Intergovernmental Receivable	29,505	
Accrued Interest Receivable	<u>2,148</u>	
		105,720
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds:		<u>(541,054)</u>
Net Assets of Governmental Activities		<u><u>\$4,826,197</u></u>

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	General	Building	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$2,093,489		\$2,329,524	\$4,423,013
Interest	128,463			128,463
Tuition and Fees	465,723		59,135	524,858
Extracurricular Activities			155	155
Customer Services	8,611,536		100,421	8,711,957
Gifts and Donations	8,785		200	8,985
Miscellaneous	62,620		18,459	81,079
Total Revenues	<u>11,370,616</u>		<u>2,507,894</u>	<u>13,878,510</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	366,233		587,557	953,790
Special	4,578,182		130,540	4,708,722
Adult/Continuing			33,684	33,684
Support Services:				
Pupils	1,547,853		636,200	2,184,053
Instructional Staff	2,274,816		485,014	2,759,830
Board of Education	37,140			37,140
Administration	1,192,056		284,671	1,476,727
Fiscal	402,268		2,409	404,677
Operation and Maintenance of Plant	80,662		3,397	84,059
Pupil Transportation	56,342		6,000	62,342
Central	103,173		34,214	137,387
Non-Instructional Services	11,682		4,679	16,361
Extracurricular Activities	28,799			28,799
Capital Outlay		\$2,122,035		2,122,035
Intergovernmental			300,473	300,473
Debt Service:				
Principal Retirement		1,000,000		1,000,000
Interest and Fiscal Charges		10,922		10,922
Issuance Costs		1,202		1,202
Total Expenditures	<u>10,679,206</u>	<u>3,134,159</u>	<u>2,508,838</u>	<u>16,322,203</u>
Excess of Revenues Over (Under) Expenditures	691,410	(3,134,159)	(944)	(2,443,693)
<u>Other Financing Source:</u>				
Proceeds of Loan		1,000,000		1,000,000
Changes in Fund Balances	691,410	(2,134,159)	(944)	(1,443,693)
Fund Balances at Beginning of Year	1,613,179	2,142,470	643,060	4,398,709
Fund Balances at End of Year	<u>\$2,304,589</u>	<u>\$8,311</u>	<u>\$642,116</u>	<u>\$2,955,016</u>

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2005**

Changes in Fund Balances - Total Governmental Funds (\$1,443,693)

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

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

Capital Outlay	2,066,366	
Depreciation	<u>(135,703)</u>	
		1,930,663

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (414)

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

Intergovernmental	(128,509)	
Interest	1,145	
Tuition and Fees	(39)	
Customer Services	41,993	
Miscellaneous	<u>44</u>	
		(85,366)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	41,862	
Compensated Absences Payable	<u>(14,966)</u>	
		<u>26,896</u>

Change in Net Assets of Governmental Activities \$428,086

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005**

	Original	Final	Actual	Variance with Final Budget Over (Under)
<u>Revenues:</u>				
Intergovernmental	\$2,107,152	\$2,107,152	\$2,107,152	
Interest	124,104	124,104	124,654	\$550
Tuition and Fees	478,219	478,219	468,771	(9,448)
Customer Services	8,764,995	8,764,995	8,730,001	(34,994)
Gifts and Donations	8,785	8,785	8,785	
Miscellaneous	28,339	28,339	27,439	(900)
Total Revenues	<u>11,511,594</u>	<u>11,511,594</u>	<u>11,466,802</u>	<u>(44,792)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	379,864	392,179	366,766	25,413
Special	4,691,202	4,708,823	4,525,607	183,216
Support Services:				
Pupils	1,540,504	1,553,901	1,516,110	37,791
Instructional Staff	2,260,834	2,328,034	2,207,292	120,742
Board of Education	47,520	48,442	42,843	5,599
Administration	1,264,971	1,273,321	1,194,058	79,263
Fiscal	407,474	400,326	397,331	2,995
Operation and Maintenance of Plant	99,735	108,839	84,161	24,678
Pupil Transportation	56,022	61,749	55,357	6,392
Central	124,877	127,697	108,361	19,336
Non-Instructional Services	14,848	15,071	12,171	2,900
Extracurricular Activities		22,052	21,679	373
Total Expenditures	<u>10,887,851</u>	<u>11,040,434</u>	<u>10,531,736</u>	<u>508,698</u>
Excess of Revenues Over Expenditures	<u>623,743</u>	<u>471,160</u>	<u>935,066</u>	<u>463,906</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures		2,963	2,963	
Other Financing Uses	(50,000)			
Advances In		90,768	90,768	
Advances Out	(80,000)	(151,813)	(151,813)	
Transfers Out	(17,000)			
Total Other Financing Sources (Uses)	<u>(147,000)</u>	<u>(58,082)</u>	<u>(58,082)</u>	
Changes in Fund Balance	476,743	413,078	876,984	463,906
Fund Balance at Beginning of Year	2,285,820	2,285,820	2,285,820	
Prior Year Encumbrances Appropriated	39,471	39,471	39,471	
Fund Balance at End of Year	<u>\$2,802,034</u>	<u>\$2,738,369</u>	<u>\$3,202,275</u>	<u>\$463,906</u>

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**Statement of Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2005**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,266</u></u>
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Net Assets:

Held in Trust for Students	<u><u>\$1,266</u></u>
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See Accompanying Notes to the Basic Financial Statements

EDUCATIONAL SERVICE CENTER
WOOD COUNTY

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005

<u>Additions:</u>	
Interest	\$25
	<hr/>
Change in Net Assets	25
Net Assets at Beginning of Year	1,241
Net Assets at End of Year	<hr/> <u>\$1,266</u>

See Accompanying Notes to the Basic Financial Statements

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**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 1 - REPORTING ENTITY

The Wood County Educational Service Center (the "Educational Service Center") is located in Bowling Green, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Eastwood, Elmwood, Lake, Northwood, North Baltimore, and Otsego Local School Districts; Perrysburg and Rossford Exempted Village School Districts; and Bowling Green City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Wood County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has six administrators, one hundred seventy-four classified employees, and one hundred twenty-seven certified employees who provide services to the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Wood County Educational Service Center, this includes general operations and student-related activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Wood County Educational Service Center.

The Educational Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Penta Career Center, the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the Wood County Insurance Consortium, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Wood County Educational Service Center have been prepared in conformity with generally accepted accounting principles (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 Educational Service Center 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. Following are the more significant of the Educational Service Center's accounting policies.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds used by the Educational Service Center, governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center 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 Educational Service Center's two major funds are the General Fund and the Building capital projects fund.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

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

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 to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund - The Building Fund is used to account for loan proceeds and transfers from the General Fund used to construct a new building.

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

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center's private purpose trust fund accounts for monies used for scholarships or other educational purposes as determined by the Trusts' board of trustees. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center does not have any agency funds.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and the fiduciary fund uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the 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 both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Deferred Revenues

Deferred revenues arise 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 are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

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

E. Budgetary Process

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

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

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

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary 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 statement 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 Educational Service Center is pooled. Monies for all funds are maintained in the pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$128,463, which includes \$53,080 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Educational Service Center maintains a capitalization threshold of one thousand dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Furniture, Fixtures, and Equipment	5-10 years
Building	40 years

I. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees who have ten or more years of service with the Educational Service Center.

**EDUCATIONAL SERVICE CENTER
WOOD 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 entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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 that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditure for specified purposes.

The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2005, the Educational Service Center had no net assets restricted by enabling legislation.

M. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance 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 which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

N. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2005, these funds included the Get It, Got It, Go; Reading Mentoring; Psych Intern; Title VI-B; and Preschool special revenue funds.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

**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 Transactions

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

P. 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 management and are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the Educational Service Center has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers", GASB Statement No. 40, "Deposit and Investment Risk Disclosure", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

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

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 4 - ACCOUNTABILITY

At June 30, 2005, the Public School, Education Management Information System, Reading Recovery, Private Industry Council, Preschool, and 21st Century special revenue funds had deficit fund balances of \$3,551, \$19, \$898, \$5,650, \$15,804, and \$1,001, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 as follows:

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

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$691,410
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	318,065
Accrued FY 2005, Not Yet Received in Cash	(218,680)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(1,215,049)
Accrued FY 2005, Not Yet Paid in Cash	1,431,062
Unrecorded Cash Activity FY 2004	(16)
Unrecorded Cash Activity FY 2005	(220)
Prepaid Items	(10,233)

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

Changes in Fund Balance (continued)	
Advances In	\$90,768
Advances Out	(151,813)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(58,310)</u>
Budget Basis	<u>\$876,984</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

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

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (Continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,637,720 of the Educational Service Center's bank balance of \$3,991,226 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Educational Service Center's name.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2005, the Educational Service Center had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Bonds	\$199,562	10/30/08
STAR Ohio	3,894	30.4 days
Total Investments	<u>\$203,456</u>	

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (Continued)

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Educational Service Center.

The Federal Home Loan Bank Bonds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Educational Service Center's name. The Educational Service Center has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

The Educational Service Center places no limit on the amount it may invest in any one issuer. The School District's investment in Federal Home Loan Bank Bonds represents total investments relative to the concentration of credit risk.

NOTE 7 - STATE FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's school districts based on each school district's total student count. The State Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the school districts agree to the services and the apportionment of the costs.

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$37.00 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Education Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with local, city, exempted village, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts, accrued interest, intergovernmental, and interfund receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Tuition	\$10,151
Customer Services	44,401
Ohio Department of MRDD	121,373
Miscellaneous	37,885
Total General Fund	213,810
Other Governmental Funds	
Community Center	21,993
Tobacco Use Prevention and Control Foundation	4,740
Alternative School	7,055
Private Industry Council	142,059
Preschool	17,584
Safe and Drug Free Community	8,168
21 st Century	45,736
Total Other Governmental Funds	247,335
Total Intergovernmental Receivables	\$461,145

NOTE 9 - CAPITAL ASSETS

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

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$112,500			\$112,500
Construction in Progress	107,773	\$92,427	(\$200,200)	
Total Nondepreciable Capital Assets	220,273	92,427	(200,200)	112,500

(continued)

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 9 - CAPITAL ASSETS – (Continued)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities (continued)				
Depreciable Capital Assets				
Furniture, Fixtures, and Equipment	\$863,519	\$24,499	(\$34,917)	\$853,101
Building		2,149,640		2,149,640
Total Depreciable Capital Assets	<u>863,519</u>	<u>2,174,139</u>	<u>(34,917)</u>	<u>3,002,741</u>
Less Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(707,526)	(81,962)	34,503	(754,985)
Building		(53,741)		(53,741)
Total Accumulated Depreciation	<u>(707,526)</u>	<u>(135,703)</u>	<u>34,503</u>	<u>(808,726)</u>
Depreciable Capital Assets, Net	<u>155,993</u>	<u>2,038,436</u>	<u>(414)</u>	<u>2,194,015</u>
Governmental Activities Capital Assets, Net	<u>\$376,266</u>	<u>\$2,130,863</u>	<u>(\$200,614)</u>	<u>\$2,306,515</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$16,692
Special	20,034
Support Services:	
Pupils	26,385
Instructional Staff	10,114
Administration	54,756
Fiscal	5,947
Central	1,775
Total Depreciation Expense	<u>\$135,703</u>

NOTE 10 - INTERFUND ASSETS/LIABILITIES

At June 30, 2005, the General Fund had an interfund receivable, in the amount of \$151,813, from other governmental funds to provide cash flow resources until the receipt of grant monies. Other governmental funds had interfund receivables, in the amount of \$4,947, from other governmental funds for services provided.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 11 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center contracted for the following insurance coverage.

Coverage provided by Ohio School Plan:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Excess Liability	2,000,000
Comprehensive Auto Liability	2,000,000
Uninsured Motorists	1,000,000

Coverage provided by Cincinnati Insurance:

Commercial Property (\$250 deductible)	503,313
Building (\$250 deductible)	2,105,921

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year, with the exception of the addition of insurance on the building. In the prior fiscal year, the Educational Service Center did not own a building.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Wood County Insurance Consortium (WCIC), a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. The Educational Service Center pays monthly premiums to the WCIC for employee medical and dental benefits. WCIC is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the WCIC, a participant is responsible for the payment of all liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center 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 to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Educational Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003, was \$640,298, \$626,739, and \$620,891, respectively; 96 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$21,041 made by the Educational Service Center and \$35,170 made by plan members.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$295,011, \$248,225, and \$193,487, respectively; 100 percent has been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount was \$50,872.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the 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.

**EDUCATIONAL SERVICE CENTER
WOOD 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 ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. 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 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$151,555 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, superintendents, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-seven days for all employees.

B. Health Care Benefits

The Educational Service Center offers medical and dental benefits to full-time employees through the Wood County Insurance Consortium (WCIC). The Educational Service Center also offers life insurance to all employees through American United Life Insurance.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 15 - SHORT-TERM OBLIGATIONS

Changes in the Educational Service Center's short-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
OASBO Loan		\$1,000,000	\$1,000,000	

On July 29, 2004, the Educational Service Center entered into a lease-purchase agreement with the Columbus Regional Airport Authority, related to the Ohio Association of School Business Officials (OASBO) Expanded Asset Pooled Financing Program for the acquisition/construction of new office facilities. A variable monthly interest rate of 1.64 - 3 percent was charged until the obligation was paid off in March 2005.

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the Educational Service Center's long-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$526,088	\$72,850	\$57,884	\$541,054	\$74,742

Compensated absences will be paid from the General Fund and the Community Center; Alcohol, Tobacco, and Other Drug Prevention; Private Industry Council; and 21st Century special revenue funds.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Penta Career Center

The Penta Career Center (Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Center operated under the direction of a Board consisting of eleven members from the participating School Districts' elected Boards. Board members are appointed for a term of two years to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Educational Service Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Educational Service Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta Career Center, Carrie Herringshaw, who serves as Treasurer, 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)

B. Northwest Ohio Computer Association

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2005, the Educational Service Center paid \$14,705 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 18 - INSURANCE POOLS

A. Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. Wood County Insurance Consortium

The Wood County Insurance Consortium (WCIC) is a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. WCIC is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the WCIC.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the WCIC is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Sharon Gillespie, Medical Mutual of Ohio, P.O. Box 943, Toledo, Ohio 43656.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

The Educational Service Center 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 (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE 19 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

**EDUCATIONAL SERVICE CENTER
WOOD 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	Federal Receipts	Federal Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
National School Breakfast Program		10.553	\$6,606	\$6,606
National School Lunch Program		10.555	18,627	18,627
Total United States Department of Agriculture			25,233	25,233
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States	050666-6BSF-2004	84.027	(917)	
	050666-6BPM-2004-P			5,097
	050666-6BPM-2005		25,000	20,453
Total Special Education Grants to States			24,083	25,550
Special Education Preschool Grants	050666-PGS1-2004	84.173	(801)	9,227
			5,435	414
	050666-PGS1-2005		95,146	94,635
Total Special Education Preschool Grants			99,780	104,276
Total Special Education Cluster			123,863	129,826
21st Century Community Learning Center	050666-T1S1-2004	84.287	47,450	18,812
	050666-T1S1-2005		409,647	415,576
Total 21st Century Community Learning Centers			457,097	434,388
Title I Grants to Local Education Agencies	050666-C1SD-2005	84.010	98,453	98,453
Title IIA Improving Teacher Quality State Grants	050666-TRS1-2004	84.367		18,238
Safe and Drug Free Schools and Communities - National Program	050666-T4S1-2005	84.184C	4,332	3,490
Title III English Language Acquisition Grants	050666-T3S1-2004	84.365	1,958	310
Total United States Department of Education			685,703	684,705
UNITED STATES DEPARTMENT OF JUSTICE				
<i>Passed Through Ohio Department of Education:</i>				
Juvenile Justice and Delinquency Prevention - Allocation to States		16.540	8,519	18,039
			3,507	1,865
Total United States Department of Justice			12,026	19,904
UNITED STATES DEPARTMENT OF LABOR				
<i>Passed through the Ohio Department of Job and Family Services and the Wood County Department of Job and Family Services:</i>				
Workforce Investment Act - Youth Activities		17.259	12	12
			111,286	111,286
Total United States Department of Labor			111,298	111,298
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities and the Wood County Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program - CAFS		93.778	320,461	320,461
State Children's Insurance Program		93.767	82,751	82,751
<i>Passed through Wood County Department of Job and Family Services:</i>				
Block Grants for Prevention and Treatment of Substance Abuse		93.959	112,445	112,445
Total United States Department of Health and Human Services			515,657	515,657
Total - All Federal Awards			\$1,349,917	\$1,356,797

The accompanying notes are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
WOOD COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the ESC's federal award programs. The schedule has been prepared on the cash basis of accounting. Negative receipts on the accompanying schedule are the result of prior year refund of receipts.

NOTE B – 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.



**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***

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wood County Educational Service Center, (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 16, 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.

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*.

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www.auditor.state.oh.us

Wood County Educational Service Center
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of 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 16, 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**

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

To the Board of Education:

Compliance

We have audited the compliance of Wood County Educational Service Center, (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that 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, Wood County Educational Service Center 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.

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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, the 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 16, 2006

**EDUCATIONAL SERVICE CENTER
WOOD 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	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	21 ST Century Community Learning Center Grant - 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE



**Auditor of State
Betty Montgomery**

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WOOD COUNTY EDUCATIONAL SERVICE CENTER

WOOD 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
APRIL 11, 2006**