



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 10, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's cash basis basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the **modified** cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective **modified** cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, as of June 30, 2006, and the respective changes in **modified** cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended June 30, 2006, the Educational Service Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

December 22, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The Management's Discussion and Analysis of the Mid-Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2006, within the limitations of the ESC's cash basis of accounting. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the cash basis basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net cash assets of governmental activities decreased \$3,119,620 which represents a 41.24% decrease from 2005.
- General cash receipts accounted for \$5,004,149 or 29.36% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$12,042,521 or 70.64% of total governmental activities cash receipts of \$17,046,670.
- The ESC had \$20,166,290 in cash disbursements related to governmental activities; \$12,042,521 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,004,149 were not adequate to provide for these programs.
- The ESC's major governmental funds are the general fund and facilities renovation fund. The general fund had \$14,660,119 in cash receipts and other financing sources and \$14,795,060 in cash disbursements and other financing uses. During fiscal year 2006, the general fund's fund cash balance decreased \$134,941 from \$4,339,251 to \$4,204,310.
- The facilities renovation fund had \$1,049,099 in other financing sources and \$3,425,971 in cash disbursements. During fiscal year 2006, the facilities renovation fund's fund balance decreased \$2,376,872 to \$0.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the ESC's cash basis of accounting.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

Reporting the ESC as a Whole

Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at cash basis financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, the Governmental Activities include the ESC's programs and services, including instruction, support services and operation and maintenance of plant.

The ESC's Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis can be found on pages 13-14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 10. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and facilities renovation fund.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the ESC is reporting on the cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities – Cash Basis due to transfers between governmental funds being eliminated for reporting in the Statement of Activities – Cash Basis. The governmental fund statements can be found on pages 15-17 of this report.

Proprietary Funds

The ESC maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC has one internal service fund that accounts for a self-insurance program which provides medical/surgical, dental and vision to employees. The cash basis proprietary fund financial statements can be found on pages 18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. Only the cash held at year end is reported in a separate Statement of Fiduciary Net Assets on page 19. This cash is excluded from the ESC's other financial statements because the cash cannot be utilized by the ESC to finance its operations.

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-37 of this report.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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The ESC as a Whole

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

The table below provides a summary of the ESC's net cash assets for 2006. In the previous year the ESC did not prepare financial statements on a cash basis; therefore, comparative information is not available.

Net Cash Assets

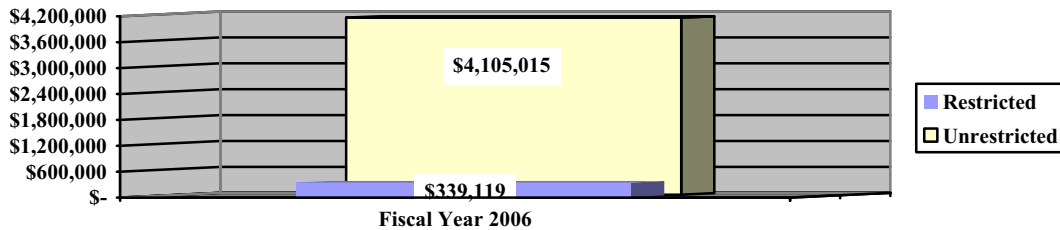
	Governmental Activities 2006
<u>Assets</u>	
Equity in pooled cash and cash equivalents	\$ 4,444,134
Total assets	4,444,134
<u>Net Cash Assets</u>	
Restricted	339,119
Unrestricted	4,105,015
Total net cash assets	\$ 4,444,134

Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's total net cash assets were \$4,444,134.

A portion of the ESC's net cash assets, \$339,119, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$4,105,015 may be used to meet the ESC's ongoing obligations to students and creditors.

The graph below presents the ESC's governmental activities restricted and unrestricted net cash assets for fiscal year 2006.

Governmental Activities - Restricted and Unrestricted Net Cash Assets



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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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The table below shows the change in net cash assets for fiscal year 2006. In the previous year the ESC did not prepare financial statements on a cash basis; therefore, comparative information is not available.

Change in Net Cash Assets

	Governmental Activities 2006
<u>Cash Receipts</u>	
Program cash receipts:	
Charges for services and sales	\$ 9,411,187
Operating grants and contributions	2,631,334
General cash receipts:	
Grants and entitlements	4,372,934
Investment earnings	468,549
Miscellaneous	162,666
Total cash receipts	<u>\$ 17,046,670</u>

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Change in Net Cash Assets

	Governmental Activities <u>2006</u>
<u>Cash Disbursements</u>	
Program expenses:	
Instruction:	
Regular	\$ 322,409
Special	3,832,088
Adult/Continuing	45,374
Support services:	
Pupil	3,764,111
Instructional staff	5,554,287
Board of education	66,597
Administration	882,590
Fiscal	530,298
Business	319,850
Operations and maintenance	288,845
Central	239,063
Other non-instructional services	697,213
Facilities acquisition and construction	3,483,865
Debt service:	
Principal retirement	110,526
Interest and fiscal charges	<u>29,174</u>
Total cash disbursements	<u>20,166,290</u>
Change in net cash assets	<u>(3,119,620)</u>
Net cash assets at beginning of year	<u>7,563,754</u>
Net cash assets at end of year	<u>\$ 4,444,134</u>

Governmental Activities

Net cash assets of the ESC's governmental activities decreased \$3,119,620. Total governmental cash disbursements of \$20,166,290 were offset by program cash receipts of \$12,042,521 and general cash receipts of \$5,004,149. Program cash receipts supported 59.72% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 55.21% of total governmental cash receipts.

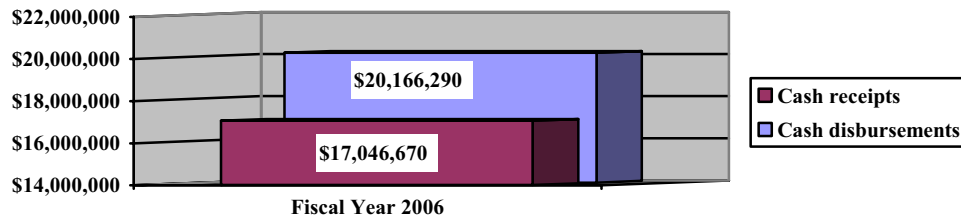
The largest cash disbursement of the ESC is for support services. Support services cash disbursements totaled \$11,645,641 or 57.75% of total governmental cash disbursements for fiscal 2006.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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The graph below presents the ESC's governmental activities cash receipts and cash disbursements for fiscal year 2006.

Governmental Activities - Cash Receipts and Disbursements



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

Governmental Activities

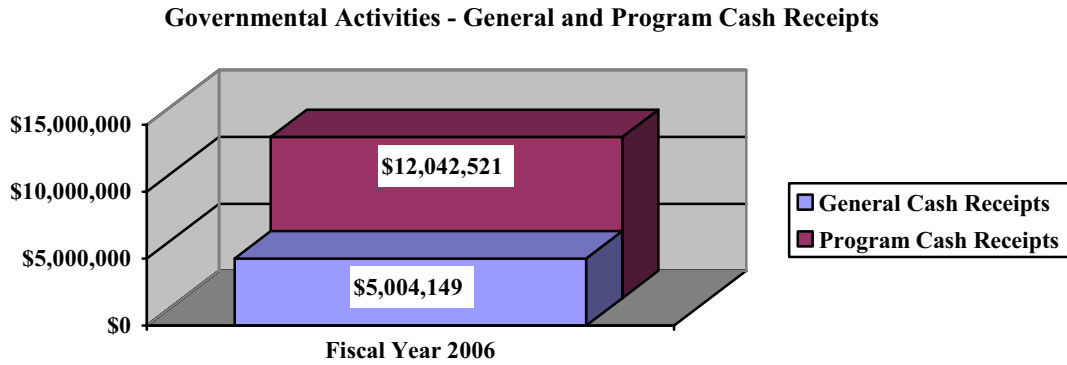
	Total Cost of Services 2006	Net Cost of Services 2006
Program cash disbursements		
Instruction:		
Regular	\$ 322,409	\$ 89,259
Special	3,832,088	694,319
Adult/Continuing	45,374	8,019
Support services:		
Pupil	3,764,111	684,029
Instructional staff	5,554,287	863,712
Board of education	66,597	66,597
Administration	882,590	863,750
Fiscal	530,298	368,984
Business	319,850	319,850
Operations and maintenance	288,845	287,332
Central	239,063	239,063
Other non-instructional services	697,213	15,290
Facilities acquisition and construction	3,483,865	3,483,865
Debt service:		
Principal retirement	110,526	110,526
Interest and fiscal charges	29,174	29,174
Total	<u>\$ 20,166,290</u>	<u>\$ 8,123,769</u>

The dependence upon general cash receipts for governmental activities is apparent, 31.71% of support services activities are supported through grants and entitlements and other general cash receipts. For all governmental activities, general cash receipt support is 40.28%. The ESC, as a whole, primarily supports the school districts by providing services.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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The graph below presents the ESC's governmental activities cash receipts for fiscal year 2006.



The ESC's Funds

The ESC's governmental funds reported a combined fund cash balance of \$4,444,134, which is lower than last year's total of \$7,281,401. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2006 and 2005.

	<u>Fund Cash Balance June 30, 2006</u>	<u>Fund Cash Balance June 30, 2005</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 4,204,310	\$ 4,339,251	\$ (134,941)	(3.11) %
Facilities Renovation	-	2,376,872	(2,376,872)	(100.00) %
Other Governmental	239,824	565,278	(325,454)	(57.57) %
Total	<u>\$ 4,444,134</u>	<u>\$ 7,281,401</u>	<u>\$ (2,837,267)</u>	<u>(38.97) %</u>

General Fund

The ESC's general fund cash balance decreased \$134,941. The decrease in fund cash balance can be primarily attributed to a transfer made to the facilities renovation fund. Cash receipts exceeded cash disbursements for fiscal year 2006 by \$665,531. The table that follows assists in illustrating the cash financial activities of the general fund.

**MID-OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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	2006 Amount	2005 Amount	Increase (Decrease)	Percentage Change
<u>Cash Receipts</u>				
Tuition	\$ 72,094	\$ 79,022	\$ (6,928)	(8.77) %
Contract services	9,190,450	8,935,382	255,068	2.85 %
Earnings on investments	404,870	181,239	223,631	123.39 %
Intergovernmental	4,372,934	4,573,833	(200,899)	(4.39) %
Other	157,987	127,199	30,788	24.20 %
Total	\$ 14,198,335	\$ 13,896,675	\$ 301,660	2.17 %
<u>Cash Disbursements</u>				
Instruction	\$ 3,712,469	\$ 3,568,503	\$ 143,966	4.03 %
Support services	9,615,895	9,779,802	(163,907)	(1.68) %
Other non-instructional services	6,846	6,587	259	3.93 %
Facilities acquisition and construction	57,894	51,337	6,557	12.77 %
Debt service	139,700	136,063	3,637	2.67 %
Total	\$ 13,532,804	\$ 13,542,292	\$ (9,488)	(0.07) %

The most significant increases in cash receipts occurred in contract services and earnings on investments. The increase in contract services receipts was due to an increase in services provided. The increase in earnings on investments was due primarily to the increase to interest rates by the Federal Reserve and additional rental income. The most significant decrease in cash receipts occurred in intergovernmental receipts which was primarily due to a decrease in state funding and the loss of Medicaid funds (CAFS). Overall, cash disbursements remained consistent.

Facilities Renovation Fund

The facilities renovation fund had \$1,049,099 in other financing sources and \$3,425,971 in cash disbursements. During fiscal year 2006, the facilities renovation fund's fund cash balance decreased \$2,376,872 to \$0.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the ESC did not amend its general fund budgeted revenues. For the general fund, original and final budgeted revenues and other financing sources were \$14,992,695. Actual revenues and other financing sources for fiscal 2006 was \$14,761,083, which is less than estimated revenues by \$231,612.

General fund final appropriations (appropriated expenditures including other financing uses) of \$16,695,739 were increased from \$16,686,822 during the fiscal year. The actual budget basis expenditures for fiscal year 2006 totaled \$14,899,980, which was \$1,795,759 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Capital Assets and Debt Administration

Capital Assets

The ESC does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2006, the ESC had \$327,021 in capital lease obligations. Of this total, \$111,579 is due within one year and \$215,442 is due in greater than one year.

The ESC is not permitted to issue debt. See Note 6 to the cash basis financial statements for additional information on the ESC's capital leases.

Current Financial Related Activities

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

The loss of Medicaid (CAFS) funds is a concern of the ESC. Current rules governing this reimbursement expired June 30, 2005, halting the flow of these dollars and significantly impacting the financial stability of various ESC programs.

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

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

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Lorraine Earnest, Treasurer, Mid-Ohio Educational Service Center, 890 West Fourth Street, Suite 100, Mansfield, Ohio 44906.

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

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,444,134
 Total assets.	 4,444,134
 Net Cash Assets:	
Restricted for:	
Locally funded programs	19,230
State funded programs	181,699
Federally funded programs	23,445
Other purposes	114,745
Unrestricted.	4,105,015
 Total net cash assets	 \$ 4,444,134

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Changes in Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 322,409	\$ 148,643	\$ 84,507	\$ (89,259)
Special	3,832,088	3,053,335	84,434	(694,319)
Adult/Continuing	45,374	-	37,355	(8,019)
Support services:				
Pupil	3,764,111	2,524,671	555,411	(684,029)
Instructional staff	5,554,287	3,684,538	1,006,037	(863,712)
Board of education	66,597	-	-	(66,597)
Administration	882,590	-	18,840	(863,750)
Fiscal	530,298	-	161,314	(368,984)
Business	319,850	-	-	(319,850)
Operations and maintenance	288,845	-	1,513	(287,332)
Central	239,063	-	-	(239,063)
Other non-instructional services	697,213	-	681,923	(15,290)
Facilities acquisition and construction	3,483,865	-	-	(3,483,865)
Debt service:				
Principal retirement	110,526	-	-	(110,526)
Interest and fiscal charges	29,174	-	-	(29,174)
Total governmental activities	<u>\$ 20,166,290</u>	<u>\$ 9,411,187</u>	<u>\$ 2,631,334</u>	<u>(8,123,769)</u>

General Cash Receipts:

Grants and entitlements not restricted to specific programs	4,372,934
Investment earnings	468,549
Miscellaneous	162,666
Total general cash receipts.	<u>5,004,149</u>
Change in net cash assets	(3,119,620)
Net cash assets at beginning of year (restated).	<u>7,563,754</u>
Net cash assets at end of year.	<u>\$ 4,444,134</u>

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH BASIS ASSETS AND FUND CASH BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Facilities Renovation	Other Governmental Funds	Total Governmental Funds
Cash Assets:				
Equity in pooled cash and cash equivalents	\$ 4,204,310	\$ -	\$ 239,824	\$ 4,444,134
Total cash basis assets	\$ 4,204,310	\$ -	\$ 239,824	\$ 4,444,134
Fund Cash Balances:				
Reserved for encumbrances	\$ 3,956	\$ 25,000	\$ 351,194	\$ 380,150
Unreserved:				
General fund	4,200,354	-	-	4,200,354
Special revenue funds	-	-	(111,370)	(111,370)
Capital projects funds	-	(25,000)	-	(25,000)
Total fund cash balances	\$ 4,204,310	\$ -	\$ 239,824	\$ 4,444,134

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Facilities Renovation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
From local sources:				
Tuition.	\$ 72,094	\$ -	\$ -	\$ 72,094
Contract services.	9,190,450	-	-	9,190,450
Earnings on investments.	404,870	-	60,245	465,115
Other	157,987	-	189,112	347,099
Intergovernmental.	4,372,934	-	2,595,544	6,968,478
Total cash receipts.	<u>14,198,335</u>	<u>-</u>	<u>2,844,901</u>	<u>17,043,236</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	87,373	-	225,419	312,792
Special.	3,625,096	-	75,403	3,700,499
Adult/Continuing.	-	-	45,374	45,374
Support services:				
Pupil.	3,098,715	-	556,406	3,655,121
Instructional staff	4,431,670	-	986,237	5,417,907
Board of education	66,597	-	-	66,597
Administration.	840,591	-	18,498	859,089
Fiscal	354,969	-	162,464	517,433
Business	318,156	-	-	318,156
Operations and maintenance.	280,660	-	8,185	288,845
Central.	224,537	-	14,510	239,047
Other non-instructional services	6,846	-	690,367	697,213
Facilities acquisition and construction	57,894	3,425,971	-	3,483,865
Debt service:				
Principal retirement	110,526	-	-	110,526
Interest and fiscal charges	29,174	-	-	29,174
Total cash disbursements.	<u>13,532,804</u>	<u>3,425,971</u>	<u>2,782,863</u>	<u>19,741,638</u>
Excess of cash receipts over (under) cash disbursements	<u>665,531</u>	<u>(3,425,971)</u>	<u>62,038</u>	<u>(2,698,402)</u>
Other financing sources (uses):				
Transfers in.	-	1,049,099	74,292	1,123,391
Transfers (out)	(1,262,256)	-	-	(1,262,256)
Advances in	461,784	-	-	461,784
Advances (out).	-	-	(461,784)	(461,784)
Total other financing sources (uses)	<u>(800,472)</u>	<u>1,049,099</u>	<u>(387,492)</u>	<u>(138,865)</u>
Net change in fund cash balances.	(134,941)	(2,376,872)	(325,454)	(2,837,267)
Fund cash balances at beginning of year (restated)	4,339,251	2,376,872	565,278	7,281,401
Fund cash balances at end of year.	<u>\$ 4,204,310</u>	<u>\$ -</u>	<u>\$ 239,824</u>	<u>\$ 4,444,134</u>

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts:				
From local sources:				
Tuition	\$ 93,309	\$ 93,309	\$ 72,094	\$ (21,215)
Contract services	9,346,633	9,346,633	9,190,450	(156,183)
Earnings on investments	348,500	348,500	404,870	56,370
Other	84,699	84,699	128,158	43,459
Intergovernmental	4,529,862	4,529,862	4,372,934	(156,928)
Total cash receipts	<u>14,403,003</u>	<u>14,403,003</u>	<u>14,168,506</u>	<u>(234,497)</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	98,787	98,844	87,373	11,471
Special	4,218,560	4,220,999	3,731,154	489,845
Support services:				
Pupil	3,503,504	3,505,531	3,098,715	406,816
Instructional staff	5,011,038	5,013,935	4,432,070	581,865
Board of education	78,530	78,576	69,457	9,119
Administration	950,399	950,948	840,591	110,357
Fiscal	401,339	401,571	354,969	46,602
Business	504,043	504,335	445,807	58,528
Operations and maintenance	325,973	326,162	288,311	37,851
Central	253,869	254,015	224,537	29,478
Other non-instructional services	7,740	7,745	6,846	899
Facilities acquisition and construction	65,457	65,495	57,894	7,601
Total cash disbursements	<u>15,419,239</u>	<u>15,428,156</u>	<u>13,637,724</u>	<u>1,790,432</u>
Excess of cash receipts over (under) cash disbursements	<u>(1,016,236)</u>	<u>(1,025,153)</u>	<u>530,782</u>	<u>1,555,935</u>
Other financing sources (uses):				
Refund of prior year expenditure	24,492	24,492	31,868	7,376
Transfers in	3,655	3,655	-	(3,655)
Transfers (out)	(1,265,912)	(1,265,912)	(1,262,256)	3,656
Advances in	561,545	561,545	560,709	(836)
Advances (out)	(1,671)	(1,671)	-	1,671
Total other financing sources (uses)	<u>(677,891)</u>	<u>(677,891)</u>	<u>(669,679)</u>	<u>8,212</u>
Net change in fund cash balance	(1,694,127)	(1,703,044)	(138,897)	1,564,147
Fund cash balance at beginning of year	4,335,988	4,335,988	4,335,988	-
Prior year encumbrances appropriated	3,263	3,263	3,263	-
Fund cash balance at end of year	<u><u>\$ 2,645,124</u></u>	<u><u>\$ 2,636,207</u></u>	<u><u>\$ 4,200,354</u></u>	<u><u>\$ 1,564,147</u></u>

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, CASH EXPENSES AND
CHANGES IN NET CASH ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Charges for services.	\$ 964,923
Operating cash expenses:	
Claims	1,389,575
Operating loss	(424,652)
Nonoperating cash receipts:	
Interest	3,434
Loss before transfers.	(421,218)
Transfer in	138,865
Change in net cash assets.	(282,353)
Net cash assets at beginning of year . . .	282,353
Net cash assets at end of year.	\$ -

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH BASIS ASSETS AND NET CASH ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Agency</u>
Cash Assets:	
Equity in pooled cash and cash equivalents	\$ 123,986
Total cash assets.	<u>\$ 123,986</u>
Net cash assets:	
Unrestricted.	\$ 123,986
Total net cash assets	<u>\$ 123,986</u>

SEE ACCOMPANYING NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY

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

The ESC has offices in Richland, Crawford and Morrow Counties. The Governing Board consists of seven members elected by the voters of each County. This Governing Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 164 non-certificated employees and 221 certificated (including administrative) employees to provide services to approximately 28,586 students throughout Crawford, Morrow, and Richland counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

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

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the ESC has no component units. The cash basis basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

Business Advisory Councils of Crawford, Morrow, and Richland Counties

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

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

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

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

Pioneer Career and Technology Center

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

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Tri-Rivers Career Center

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

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. See Note 7 B for further information.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 7 C for further information pertaining to this insurance purchasing pool.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the ESC chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is an other comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

The ESC classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the ESC's major governmental funds:

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

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

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

PROPRIETARY FUND

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

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

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

FIDUCIARY FUNDS

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

D. Basis of Presentation

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

The government-wide statement of activities compares disbursements with program receipts for each function or program of the ESC's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the ESC. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the ESC.

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

E. Budgets

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

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

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

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

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal year 2006.

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

F. Cash and Investments

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio ("STAR Ohio"), nonnegotiable certificates of deposit and federal securities; investments are reported at cost.

The ESC has invested funds in STAR Ohio during fiscal year 2006. 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, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$404,870, which includes \$79,450 assigned from other funds.

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

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

I. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the cash basis of accounting. The ESC is not permitted to obtain debt beyond capital lease obligations.

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

J. Fund Cash Balance Reserves

The ESC reserves those portions of fund cash balance which are legally segregated for a specific future use. Unreserved fund cash balance indicates that portion of fund cash balance which is available for appropriation in future periods. Fund cash balance reserves have been established for encumbrances.

K. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

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

L. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the cash basis basic financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

- A.** During fiscal year 2006, the ESC changed from the modified accrual basis of accounting to the cash basis of accounting (see Note 2 A). The ESC has also elected to present the cash basis financial statements in a GASB 34 like format. The fund balances for June 30, 2005 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

For reporting in accordance with GASB 34-like statements, the ESC is required to present government-wide financial statements. These statements consolidate all governmental activities in a single column.

Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34.

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

NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

The transition from the modified accrual basis of accounting to the cash basis of accounting had the following effect on fund balances at June 30, 2005:

	<u>General</u>	<u>Facilities Renovation</u>	<u>Nonmajor Governmental</u>	<u>Total</u>	<u>Proprietary Fund Internal Service</u>
Fund Balance at June 30, 2005	\$ 4,101,720	\$ 1,651,028	\$ 69,188	\$ 5,821,936	\$ 301,134
Change in Reporting Basis Adjustments	<u>237,531</u>	<u>725,844</u>	<u>496,090</u>	<u>1,459,465</u>	<u>(18,781)</u>
Restated Fund Cash Balance at June 30, 2005	<u>\$ 4,339,251</u>	<u>\$ 2,376,872</u>	<u>\$ 565,278</u>	<u>\$ 7,281,401</u>	<u>\$ 282,353</u>
<u>GASB 34 Adjustments:</u>					
Internal service fund cash balance				<u>282,353</u>	
Governmental Activities Net Cash Assets at June 30, 2005				<u>\$ 7,563,754</u>	

The governmental activities net cash assets at June 30, 2005 equal the restated fund cash balances at June 30, 2005 since there are no adjustments required to convert the fund financial statements to the government-wide financial statements.

B. Cash balances at June 30, 2006 included the following individual cash deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Preschool Grant	\$ 902
Miscellaneous Federal Grants	100,518

The cash deficits were due to the timing of cash flows in these grant funds. The general fund is liable for any deficits in these funds and funds were available in the general fund to cover these deficits.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

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

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

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all ESC deposits was \$ 219,384. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$783,975 of the ESC's bank balance of \$1,472,975 was exposed to custodial risk as discussed below, while \$689,000 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2006, the ESC had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 Months
FHLB	\$ 950,000	\$ -	\$ 200,000	\$ -	\$ 100,000	\$ 650,000
FNMA	600,000	-	200,000	200,000	200,000	-
STAR Ohio	2,798,736	2,798,736	-	-	-	-
	<u>\$ 4,348,736</u>	<u>\$ 2,798,736</u>	<u>\$ 400,000</u>	<u>\$ 200,000</u>	<u>\$ 300,000</u>	<u>\$ 650,000</u>

The weighted average maturity of investments is .58 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

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

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2006:

<u>Investment type</u>	<u>Cash Value</u>	<u>% to Total</u>
FHLB	\$ 950,000	21.85
FNMA	600,000	13.80
STAR Ohio	<u>2,798,736</u>	<u>64.35</u>
	<u>\$ 4,348,736</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Invesments per footnote</u>	
Carrying amount of deposits	\$ 219,384
Investments	<u>4,348,736</u>
Total	<u>\$ 4,568,120</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,444,134
Agency funds	<u>123,986</u>
Total	<u>\$ 4,568,120</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from the General Fund to:	
Facilities Renovation	\$ 1,049,099
Nonmajor governmental funds	74,292
Internal service fund	<u>138,865</u>
	<u>\$ 1,262,256</u>

Transfers are used to move cash receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to disburse them and to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the ESC has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. New leases are accounted for as a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined statement of cash receipts, cash disbursements and changes in fund cash balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in the 2006 fiscal year totaled \$110,526. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 132,353
2008	130,631
2009	118,828
2010	<u>1,487</u>
Total minimum lease payments	<u>383,299</u>
Less amount representing interest	<u>(56,278)</u>
Total	<u>\$ 327,021</u>

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

NOTE 7 - RISK MANAGEMENT

A. Comprehensive Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. During fiscal year 2006, the ESC contracted with The Auck Dostal Agency, Inc. for building insurance and with Ohio School Plan for auto liability. Coverages are as follows:

Building contents – replacement cost (\$5,000 deductible)	\$4,680,000
General liability per occurrence	1,000,000

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - RISK MANAGEMENT – (Continued)

B. Health Benefits

The ESC has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$75,000 for each health benefits claim. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by American Administrative Group, Inc. Through OME-RESA, the ESC purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. This plan ended in January 2006.

In February 2006, the ESC began a contract with Stark County Schools Council of Governments (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The ESC pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The ESC's Governing Board pays a percentage of the premiums. For fiscal year 2006, the monthly premium for medical/prescription was \$918.40 for family coverage and \$378.11 for single coverage, Board pays 85% and 90% respectively; dental was \$118.42 for family coverage and \$48.03 for single coverage, Board pays 85% and 90% respectively; vision was \$25.25 for family coverage and \$10.07 for single coverage, with nothing paid by the Board; and life was \$5.85 for family or single coverage and the Board pays 100%.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 9. As such, no funding provisions are required by the ESC.

C. Workers' Compensation

For fiscal year 2006, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$354,895, \$294,051, and \$237,331, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

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

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$860,855, \$837,361, and \$790,094, respectively; 100% has been contributed for all fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2006, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 obligations 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 DB or combined plans and their dependents are eligible for health care coverage. The STRS 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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$66,220 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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NOTES TO THE CASH BASIS BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, ESC paid \$157,070 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient 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 58,123 participants currently receiving health care benefits.

NOTE 10 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 11 – SIGNIFICANT SUBSEQUENT EVENT

Superintendent Mr. Gregg Reink resigned as of July 31, 2006, and the ESC currently has an interim Superintendent, Mr. Robert Alexander.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA #	Pass-through Entity Number	Receipts	Expenditures
<u>U.S. Department of Education</u>				
<i>Direct Program:</i>				
Fund for the Improvement of Education	84.215X	N/A	\$104,873	\$317,000
		N/A	<u>565,875</u>	<u>574,469</u>
Total Fund for the Improvement of Education			670,748	891,469
<i>Passed through the Ohio Department of Education:</i>				
Adult Education - State Grant Program	84.002	123521-ABS1-2005	(5,833)	17,519
		123521-ABS1-2006	<u>65,343</u>	<u>71,430</u>
Total Adult Education - State Grant Program			59,510	88,949
Special Education Cluster:				
Special Education - Preschool Grants	84.173	123521-PGS1-2005	15,579	25,176
		123521-PGS1-2006	<u>63,205</u>	<u>64,108</u>
Total Special Education - Preschool Grants			78,784	89,284
Special Education Grants to States	84.027	123521-6BEC-2005	2,042	
		123521-6BEC-2006	<u>50,000</u>	<u>50,000</u>
Total Special Education - Grants to States			52,042	50,000
Total Special Education Cluster			130,826	139,284
Safe and Drug-Free and Communities National Programs	84.184	123521-T4S1-2005	1,250	1,250
Javits Gifted and Talented Students Education Grant Program	84.206	123521-JGS1-2006	<u>7,777</u>	<u>1,425</u>
Total U.S. Department of Education			870,111	1,122,377
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Insurance Program	93.767		58,668	58,668
Medical Assistance Program	93.778	N/A	<u>524,796</u>	<u>524,796</u>
Total U.S. Department of Health and Human Services			583,464	583,464
<u>U.S. Department of Agriculture</u>				
<i>Passed through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
National School Breakfast Program	10.553	123521-05PU-2005	28,723	28,723
		123521-05PU-2006	<u>35,800</u>	<u>35,800</u>
Total National School Breakfast Program			64,523	64,523
National School Lunch Program	10.555	123521-LLP4-2005	47,542	47,542
		123521-LLP4-2006	58,526	58,526
		123521-LLP1-2005	5,230	5,230
		123521-LLP1-2006	<u>6,017</u>	<u>6,017</u>
Total National School Lunch Program			117,315	117,315
Total Child Nutrition Cluster			181,838	181,838
Child and Adult Care Food Program	10.558	123521-CCMO-2005	1,096	1,096
		123521-CCMO-2006	<u>3,831</u>	<u>3,831</u>
Total Child and Adult Care Food Program			4,927	4,927
Total U.S. Department of Agriculture			186,765	186,765
<u>U.S. Department of Labor</u>				
<i>Passed through Ohio Dept of Job & Family Services:</i>				
<i>Passed through the Area 10 Workforce Investment Board:</i>				
WIA Youth Activities	17.259	N/A	35,240	
		N/A	<u>531,282</u>	<u>623,206</u>
Total WIA Youth Activities			566,522	623,206
Total U.S. Department of Labor			566,522	623,206
Total			<u>\$2,206,862</u>	<u>\$2,515,812</u>

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

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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



Auditor of State Betty Montgomery

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

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

To the Board of Governors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's cash basis basic financial statements and have issued our report thereon dated December 22, 2006 wherein we noted the Educational Service Center follows the modified cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Educational Service Center's management dated December 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

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

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

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

Betty Montgomery
Auditor of State

December 22, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Governors:

Compliance

We have audited the compliance of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Educational Service Center's management in a separate letter dated December 22, 2006.

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

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

Betty Montgomery
Auditor of State

December 22, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 93.778 – Medical Assistance Program (CAFS); CFDA # 17.259 WIA Youth Activities; CFDA #10.553 - National School Breakfast Program; CFDA #10.555 – National School Lunch Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 16, 2007**