

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

REGULAR AUDIT

JUNE 30, 2006



Mary Taylor, CPA

Auditor of State

Board of Education
North Central Ohio Educational Service Center
65 St. Francis Ave.
Tiffin, Ohio 44883

We have reviewed the *Independent Accountants' Report* of the North Central Ohio Educational Service Center, Seneca County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The North Central Ohio Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 11, 2007

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

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Perry & Associates
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INDEPENDENT ACCOUNTANTS' REPORT

February 28, 2007

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of North Central Educational Service Center, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

North Central Ohio Educational Service Center
Seneca County
Independent Accountants' Report
Page 2

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

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

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

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$25,528 which represents a 4.56% increase from 2005.
- General revenues accounted for \$2,594,572 in revenue or 26.33% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,258,809 or 73.67% of total revenues of \$9,853,381.
- The ESC had \$9,827,853 in expenses related to governmental activities; \$7,258,809 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,594,572 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$8,974,385 in revenues and \$8,979,333 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$4,948 from \$698,117 to \$693,169.

Using these Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The District's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-41 of this report.

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

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

The ESC as a Whole

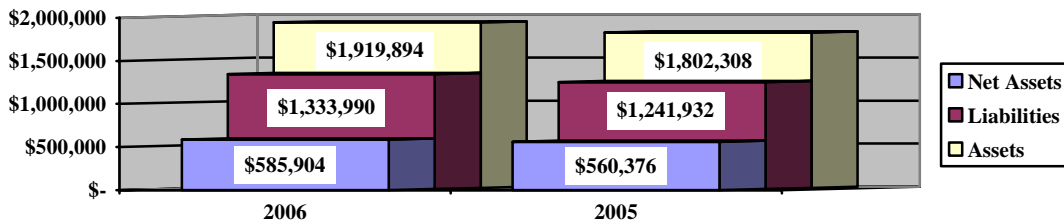
Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 1,839,317	\$ 1,696,325
Capital assets, net	<u>80,577</u>	<u>105,983</u>
Total assets	<u>1,919,894</u>	<u>1,802,308</u>
<u>Liabilities</u>		
Current liabilities	910,526	843,075
Long-term liabilities	<u>423,464</u>	<u>398,857</u>
Total liabilities	<u>1,333,990</u>	<u>1,241,932</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	80,183	104,953
Restricted	135,852	19,674
Unrestricted	<u>369,869</u>	<u>435,749</u>
Total net assets	<u>\$ 585,904</u>	<u>\$ 560,376</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's assets exceeded liabilities by \$585,904. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$80,183. These capital assets are used to provide services to the students and are not available for future spending. A portion of the ESC's net assets, \$135,852, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$369,869 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



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

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

The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 6,516,079	\$ 5,641,402
Operating grants and contributions	742,730	697,052
General revenues:		
Grants and entitlements, unrestricted	2,335,471	2,871,051
Investment earnings	55,078	33,411
Other	<u>204,023</u>	<u>340,768</u>
Total revenues	<u>9,853,381</u>	<u>9,583,684</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	287,674	256,289
Special	3,471,297	3,101,249
Support services:		
Pupil	2,254,987	2,156,901
Instructional staff	1,993,764	1,894,604
Board of education	45,001	40,712
Administration	825,058	920,306
Fiscal	328,496	380,554
Business	5,073	90,139
Operations and maintenance	203,104	191,849
Pupil transportation	14,057	14,715
Central	255,139	261,618
Food service operations	14,416	12,688
Intergovernmental pass-through	129,727	122,654
Interest and fiscal charges	<u>60</u>	<u>108</u>
Total expenses	<u>9,827,853</u>	<u>9,444,386</u>
Change in net assets	25,528	139,298
Net assets at beginning of year	<u>560,376</u>	<u>421,078</u>
Net assets at end of year	<u>\$ 585,904</u>	<u>\$ 560,376</u>

Governmental Activities

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

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

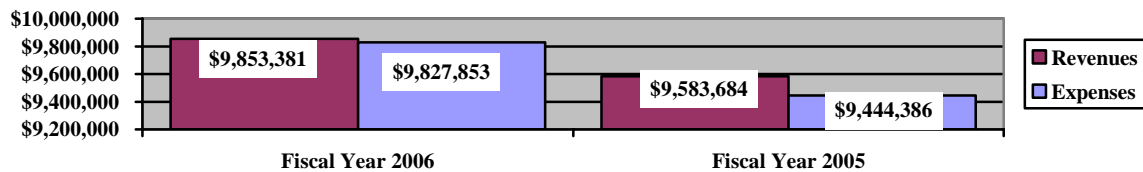
Net assets of the ESC's governmental activities increased \$25,528. Total governmental expenses of \$9,827,853 were offset by program revenues of \$7,258,809 and general revenues of \$2,594,572. Program revenues supported 73.86% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 66.13% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$5,924,679 or 60.28% of total governmental expenses for fiscal 2006.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2006 and 2005.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

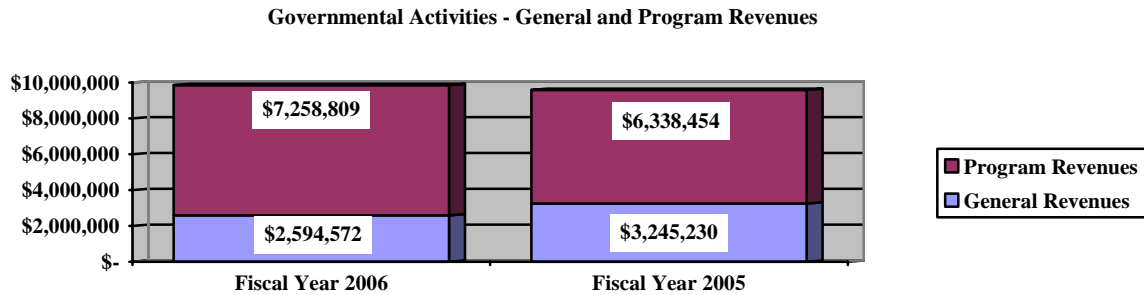
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 287,674	\$ 129,109	\$ 256,289	\$ 166,511
Special	3,471,297	783,136	3,101,249	852,621
Support services:				
Pupil	2,254,987	367,307	2,156,901	559,497
Instructional staff	1,993,764	359,931	1,894,604	465,639
Board of education	45,001	45,001	40,712	40,712
Administration	825,058	124,598	920,306	134,362
Fiscal	328,496	317,877	380,554	371,751
Business	5,073	5,073	90,139	90,139
Operations and maintenance	203,104	184,258	191,849	173,256
Pupil transportation	14,057	14,057	14,715	14,715
Central	255,139	237,837	261,618	244,862
Food service operations	14,416	1,585	12,688	1,250
Intergovernmental pass-through	129,727	(785)	122,654	(9,491)
Interest and fiscal charges	60	60	108	108
Total expenses	<u>\$ 9,827,853</u>	<u>\$ 2,569,044</u>	<u>\$ 9,444,386</u>	<u>\$ 3,105,932</u>

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

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

The dependence on unrestricted grants and entitlements and other general revenues for governmental activities is apparent, 24.27% of instruction activities are supported through general revenues. For all governmental activities, general revenue support is 26.14%. The ESC's contract services, as a whole, are by far the primary support for the ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2006 and 2005.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$884,048, which is higher than last year's total of \$827,021. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 693,169	\$ 698,117	\$ (4,948)	(0.71) %
Other Governmental	<u>190,879</u>	<u>128,904</u>	<u>61,975</u>	48.08 %
Total	<u>\$ 884,048</u>	<u>\$ 827,021</u>	<u>\$ 57,027</u>	6.90 %

General Fund

The ESC's general fund balance decreased by \$4,948. The decrease in fund balance can be attributed to several items related to expenditure increases outpacing the increase in revenues, and transfers out to other funds in the amount of \$49,729. Revenues exceeded expenditures in year 2006 by \$44,781. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Contract services	\$ 6,212,292	\$ 5,604,772	\$ 607,520	10.84 %
Earnings on investments	55,078	33,020	22,058	66.80 %
Intergovernmental	2,335,471	2,871,051	(535,580)	(18.65) %
Other revenues	<u>371,544</u>	<u>340,768</u>	<u>30,776</u>	9.03 %
Total	<u>\$ 8,974,385</u>	<u>\$ 8,849,611</u>	<u>\$ 124,774</u>	1.41 %

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

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

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Expenditures</u>				
Instruction	\$ 3,611,117	\$ 3,258,050	\$ 353,067	10.84 %
Support services	5,317,791	5,401,013	(83,222)	(1.54) %
Debt service	<u>696</u>	<u>694</u>	<u>2</u>	0.29 %
Total	<u>\$ 8,929,604</u>	<u>\$ 8,659,757</u>	<u>\$ 269,847</u>	3.12 %

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 amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,337,807 and final budgeted revenues and other financing sources were \$9,236,235. Actual revenues and other financing sources for fiscal 2006 was \$8,926,669. This represents a \$309,566 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,055,086 were increased to \$9,832,288 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$8,907,880, which was \$924,408 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the ESC had \$80,577 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Furniture and equipment	<u>\$ 80,577</u>	<u>\$ 105,983</u>
Total	<u>\$ 80,577</u>	<u>\$ 105,983</u>

The overall decrease in capital assets of \$25,406 is due primarily to depreciation expense of \$48,389 in the fiscal year.

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

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

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

Debt Administration

At June 30, 2006, the ESC had \$394 in capital lease obligations outstanding. Of this total, \$394 is due within one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Capital lease obligations	\$ 394	\$ 1,030
Total	<u>\$ 394</u>	<u>\$ 1,030</u>

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

Current Financial Related Activities

In fiscal year 2006, the Board and management of the educational service center enacted measures to address the financial status of the ESC. These measures proved to be beneficial to the ESC in fiscal year 2006. At the end of fiscal year 2006, the general fund balance demonstrated a positive cash flow. Again, unanticipated funds from the CAFS program were received. No plan has been enacted by the federal/state government to replace the CAFS program, although all parties involved continue to work towards a solution. One is anticipated for late in fiscal year 2007.

Several steps were taken to be proactive in determining the long-term financial health of the ESC. During this fiscal year, the Board commissioned an in-depth self-evaluation of the ESC. The study lasted several months, and was performed by the consulting firm of Specialists for School Improvement, Inc. Employees representing all areas of ESC departments and personnel, as well as members of the Board, participated in this extensive procedure. As one segment of the study, the consultant met on more than one occasion with administrators of ESC member districts for an in-depth discussion of the ESC, and the services it offers. After approximately six months, the consultant presented study findings first to the Board, and then to all ESC employees. Based on the study findings, changes have already been made in some areas, and an updated long range continuous improvement plan is being developed. New programs have been added for the coming fiscal year which will provide increased revenue.

A local school district from another county had asked to become a member district of the North Central Ohio ESC. The superintendent and Board worked with the local district and the Ohio Department of Education to make this effective July 1, 2006, providing both increased state and local per pupil funding.

The current superintendent had previously announced plans to retire effective July 31, 2006. In order to enable a smooth transition, the Board contracted with Temporary Professional Services to perform a superintendent search. The resulting search was performed on a timeline that allowed the new superintendent to work approximately two months with the current superintendent. This provided understanding of the self-study results with a continuation of the changes already begun, as well as input into the continuous improvement plan being developed.

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

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

Fiscal year 2006 was the final year in which county commissioners would pay a part of the cost of an educational service center. Through that time, the North Central Ohio ESC had rented space in two buildings from the Seneca County Commissioners. Again, with the support of the board, the superintendent and treasurer began to explore the possibility of moving all ESC Seneca County employees into one building. It is anticipated that all Seneca County employees being in the same building will help with communication and enhance the service center's ability to provide current service and respond to the needs of member districts to sell services/programs in the future.

Contacting the ESC's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,545,713
Cash with fiscal agent.	157,149
Receivables:	
Intergovernmental	123,747
Prepayments	12,708
Capital assets:	
Depreciable capital assets, net	80,577
 Total assets.	 1,919,894
Liabilities:	
Accounts payable.	6,478
Accrued wages and benefits	748,044
Pension obligation payable.	114,036
Intergovernmental payable	41,968
Long-term liabilities:	
Due within one year.	86,816
Due within more than one year	336,648
 Total liabilities	 1,333,990
Net Assets:	
Invested in capital assets, net of related debt.	80,183
Restricted for:	
Locally funded programs	120,426
State funded programs.	3,671
Federally funded programs.	11,755
Unrestricted.	369,869
 Total net assets	 \$ 585,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 287,674	\$ 22,346	\$ 136,219	\$ (129,109)
Special	3,471,297	2,688,161	-	(783,136)
Support services:				
Pupil.	2,254,987	1,840,439	47,241	(367,307)
Instructional staff	1,993,764	1,509,903	123,930	(359,931)
Board of education	45,001	-	-	(45,001)
Administration.	825,058	451,960	248,500	(124,598)
Fiscal.	328,496	-	10,619	(317,877)
Business.	5,073	-	-	(5,073)
Operations and maintenance	203,104	-	18,846	(184,258)
Pupil transportation.	14,057	-	-	(14,057)
Central	255,139	-	17,302	(237,837)
Operation of non-instructional services:				
Food service operations	14,416	3,270	9,561	(1,585)
Intergovernmental pass-through.	129,727	-	130,512	785
Interest and fiscal charges	60	-	-	(60)
Total governmental activities	\$ 9,827,853	\$ 6,516,079	\$ 742,730	(2,569,044)

General Revenues:

Grants and entitlements not restricted to specific programs.	2,335,471
Investment earnings	55,078
Miscellaneous	204,023
Total general revenues.	2,594,572
Change in net assets	25,528
Net assets at beginning of year	560,376
Net assets at end of year	\$ 585,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,344,908	\$ 200,805	\$ 1,545,713
Cash with fiscal agent	157,149	-	157,149
Receivables:			
Intergovernmental	122,694	1,053	123,747
Prepayments	12,708	-	12,708
Total assets	<u>\$ 1,637,459</u>	<u>\$ 201,858</u>	<u>\$ 1,839,317</u>
Liabilities:			
Accounts payable	\$ 6,435	\$ 43	\$ 6,478
Accrued wages and benefits	742,948	5,096	748,044
Compensated absences payable	39,035	-	39,035
Pension obligation payable.	110,180	3,856	114,036
Intergovernmental payable.	39,984	1,984	41,968
Deferred revenue.	5,708	-	5,708
Total liabilities	<u>944,290</u>	<u>10,979</u>	<u>955,269</u>
Fund Balances:			
Reserved for encumbrances	3,077	6,074	9,151
Reserved for termination benefits	-	50,501	50,501
Reserved for prepayments	12,708	-	12,708
Unreserved, undesignated, reported in:			
General fund	677,384	-	677,384
Special revenue funds.	-	134,304	134,304
Total fund balances	<u>693,169</u>	<u>190,879</u>	<u>884,048</u>
Total liabilities and fund balances	<u>\$ 1,637,459</u>	<u>\$ 201,858</u>	<u>\$ 1,839,317</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 884,048
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		80,577
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract service revenue	\$ 3,792	
Other local revenue	1,916	
Total		5,708
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(384,035)	
Capital lease obligation	(394)	
Total		(384,429)
Net assets of governmental activities		\$ 585,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Charges for services	\$ -	\$ 3,270	\$ 3,270
Earnings on investments.	55,078	-	55,078
Tuition.	3,158	-	3,158
Other local revenues.	368,386	133,567	501,953
Contract service revenue	6,212,292	-	6,212,292
Intergovernmental - State.	2,188,683	561,183	2,749,866
Intergovernmental - Federal	146,788	181,547	328,335
Total revenue	<u>8,974,385</u>	<u>879,567</u>	<u>9,853,952</u>
Expenditures:			
Current:			
Instruction:			
Regular	154,253	149,264	303,517
Special.	3,456,864	-	3,456,864
Support services:			
Pupil.	2,157,296	63,767	2,221,063
Instructional staff	1,840,990	171,892	2,012,882
Board of education	44,103	898	45,001
Administration.	540,250	290,478	830,728
Fiscal	311,751	10,724	322,475
Business	3,711	-	3,711
Operations and maintenance.	181,376	18,846	200,222
Pupil transportation	14,057	-	14,057
Central.	224,257	17,309	241,566
Food service operations	-	14,416	14,416
Intergovernmental pass through	-	129,727	129,727
Debt service:			
Principal retirement	636	-	636
Interest and fiscal charges	60	-	60
Total expenditures	<u>8,929,604</u>	<u>867,321</u>	<u>9,796,925</u>
Excess of revenues over expenditures	<u>44,781</u>	<u>12,246</u>	<u>57,027</u>
Other financing sources (uses):			
Transfers in	-	49,729	49,729
Transfers (out).	(49,729)	-	(49,729)
Total other financing sources (uses)	<u>(49,729)</u>	<u>49,729</u>	<u>-</u>
Net change in fund balances	(4,948)	61,975	57,027
Fund balances at beginning of year	<u>698,117</u>	<u>128,904</u>	<u>827,021</u>
Fund balances at end of year.	<u>\$ 693,169</u>	<u>\$ 190,879</u>	<u>\$ 884,048</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	57,027
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.</p>		
Capital asset additions	\$ 43,488	
Current year depreciation	<u>(48,389)</u>	
Total		(4,901)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(20,505)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(571)
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		636
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(6,158)</u>
Change in net assets of governmental activities	\$	<u>25,528</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Earnings on investments.	\$ 55,801	\$ 61,814	\$ 59,738	\$ (2,076)
Tuition.	3,158	3,158	3,158	-
Other local revenues	336,228	372,458	359,949	(12,509)
Contract service revenue	5,743,738	6,362,985	6,149,169	(213,816)
Intergovernmental - State	2,044,450	2,264,747	2,188,683	(76,064)
Intergovernmental - Federal.	137,114	151,889	146,788	(5,101)
Total revenue	<u>8,320,489</u>	<u>9,217,051</u>	<u>8,907,485</u>	<u>(309,566)</u>
Expenditures:				
Current:				
Instruction:				
Regular	155,765	169,134	153,150	15,984
Special.	3,470,774	3,768,672	3,412,550	356,122
Support services:				
Pupil.	2,198,472	2,387,168	2,161,592	225,576
Instructional staff	1,826,837	1,983,635	1,796,191	187,444
Board of education	46,063	50,017	45,291	4,726
Administration.	562,685	610,980	553,245	57,735
Fiscal	313,545	340,457	308,285	32,172
Business	3,725	4,045	3,663	382
Operations and maintenance.	186,772	202,803	183,639	19,164
Pupil transportation	15,855	17,216	15,589	1,627
Central.	228,794	248,432	224,956	23,476
Total expenditures	<u>9,009,287</u>	<u>9,782,559</u>	<u>8,858,151</u>	<u>924,408</u>
Excess of revenues over (under) expenditures.	<u>(688,798)</u>	<u>(565,508)</u>	<u>49,334</u>	<u>614,842</u>
Other financing sources (uses):				
Refund of prior year expenditure	13,256	14,684	14,684	-
Transfers (out)	(45,799)	(49,729)	(49,729)	-
Sale of capital assets.	4,062	4,500	4,500	-
Total other financing sources (uses)	<u>(28,481)</u>	<u>(30,545)</u>	<u>(30,545)</u>	<u>-</u>
Net change in fund balance	(717,279)	(596,053)	18,789	614,842
Fund balance at beginning of year.	1,450,787	1,450,787	1,450,787	-
Prior year encumbrances appropriated	21,374	21,374	21,374	-
Fund balance at end of year	<u>\$ 754,882</u>	<u>\$ 876,108</u>	<u>\$ 1,490,950</u>	<u>\$ 614,842</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,371	\$ 192,114
Prepayments	-	907
Receivables:		
Intergovernmental	-	30,702
Total assets	1,371	\$ 223,723
Liabilities:		
Accounts payable	-	\$ 2,075
Intergovernmental payable	-	221,648
Total liabilities	-	\$ 223,723
Net Assets:		
Held in trust for scholarships	1,371	
Total net assets	\$ 1,371	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 68
Total additions.	68
Deductions:	
Scholarships awarded	3,200
Change in net assets	(3,132)
Net assets at beginning of year	4,503
Net assets at end of year.	\$ 1,371

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The ESC provides regular, vocational, and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, and facilities acquisitions. The ESC is staffed by 76 non-certificated employees and 106 certificated employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

Marion Area Partners in Education (the "Council")

The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions, and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

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

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the ESC are used to account for (a) for grants and other resources whose use is restricted to a particular purpose; or (b) for food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: donations, interest, tuition, grants, entitlements and contract services.

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

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

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

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

E. Budgets

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

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

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

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

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

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

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

F. Cash and Investments

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 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 Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$55,078, which includes \$8,449 assigned from other funds.

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

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

G. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

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

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

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

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

H. Interfund Balances

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 10 for detail on compensated absences).

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

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

L. Net Assets

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

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

N. Estimates

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board 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. Changes in Accounting Principles

For fiscal year 2006, the ESC has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

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

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Education Foundation	\$ 20
Title I	7

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

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

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

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as "Cash with Fiscal Agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2006 was \$157,149.

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all ESC deposits was \$366,455. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$733,092 of the ESC's bank balance of \$833,092 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

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

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ <u>1,372,743</u>	\$ <u>1,372,743</u>

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>1,372,743</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 366,455
Investments	1,372,743
Cash with fiscal agent	157,149
Total	<u>\$ 1,896,347</u>

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

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,702,862
Private-purpose trust funds	1,371
Agency funds	<u>192,114</u>
Total	<u>\$ 1,896,347</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 to Nonmajor Governmental funds from:	
General Fund	\$ 49,729

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Intergovernmental	<u>\$ 123,747</u>

All receivables are expected to be collected within subsequent years.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities				
Furniture and equipment	\$ 509,681	\$ 43,488	\$ (71,908)	\$ 481,261
Total capital assets, being depreciated	<u>509,681</u>	<u>43,488</u>	<u>(71,908)</u>	<u>481,261</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	<u>(403,698)</u>	<u>(48,389)</u>	<u>51,403</u>	<u>(400,684)</u>
Total accumulated depreciation	<u>(403,698)</u>	<u>(48,389)</u>	<u>51,403</u>	<u>(400,684)</u>
Governmental activities capital assets, net	<u>\$ 105,983</u>	<u>\$ (4,901)</u>	<u>\$ (20,505)</u>	<u>\$ 80,577</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,493
Special	7,133
<u>Support Services:</u>	
Pupil	7,735
Instructional staff	5,733
Administration	5,560
Fiscal	1,035
Business	2,527
Operations and maintenance	2,882
Central	<u>13,291</u>
Total depreciation expense	<u>\$ 48,389</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$2,833. This amount represents the present value of the future minimum lease payment at the date of their inception. Accumulated depreciation as of June 30, 2006 was \$2,266, leaving a current book value of \$567. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$636 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 404
Total minimum lease payments	404
Less amount representing interest	<u>(10)</u>
Total	<u>\$ 394</u>

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NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>One Year</u>	
Governmental Activities:						
Compensated absence payable	\$ 397,827	\$ 104,056	\$ (78,813)	\$ 423,070	\$ 86,422	
Capital lease obligation	<u>1,030</u>	<u>-</u>	<u>(636)</u>	<u>394</u>	<u>394</u>	
Total long-term obligations, governmental activities	<u>\$ 398,857</u>	<u>\$ 104,056</u>	<u>\$ (79,449)</u>	<u>\$ 423,464</u>	<u>\$ 86,816</u>	

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

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:

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

Severance Pay:

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

Retirement

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

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

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NOTE 10 - COMPENSATED ABSENCES - (Continued)

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

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

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

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

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

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

B. Employee Health Insurance

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - RISK MANAGEMENT – (Continued)

C. Workers' Compensation

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

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

NOTE 12 - 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 \$141,699, \$137,652 and \$120,666, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004.

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NOTE 12 - PENSION PLANS – (Continued)

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.

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.

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. 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 to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$616,491, \$582,469, and \$576,118, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal 2006 were \$6,319 made by the ESC and \$6,109 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

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NOTE 13 - 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 (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 \$47,422 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.

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 \$68,492 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.

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 18,789
Net adjustment for revenue accruals	66,900
Net adjustment for expenditure accruals	(82,560)
Net adjustment for other sources/uses	(19,184)
Adjustment for encumbrances	<u>11,107</u>
GAAP basis	<u>\$ (4,948)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

NOTE 15 – CONTINGENCIES (Continued)

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

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

B. Litigation

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

Perry & Associates
Certified Public Accountants, A.C.

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

February 28, 2007

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883

To the Board of Education:

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2006, which collectively comprise the ESC's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

North Central Ohio Educational Service Center
Seneca County
Independent Accountants' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.



Mary Taylor, CPA
Auditor of State

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**