



**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Ohio Educational Service Center
Henry County
104 E. Washington Street, Suite 302
Napoleon, Ohio 43545-1660

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Ohio Educational Service Center, Henry County, Ohio (the Service Center), as of and for the year ended June 30, 2007, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Ohio Educational Service Center, Henry County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof 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 26, 2008, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements. The Schedules of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual provide additional information and are not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

February 26, 2008

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Northwest Ohio Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Highlights for fiscal year 2007 are as follows:

- Total net assets increased by \$993,593, or over 22 percent, from the prior fiscal year. Most of the increase was due to increased charges for services. Overall, revenues increased 6 percent while expenses only increased 2 percent.
- The Educational Service Center owns one property, the Independence Education Center (IEC). Office space is rented and several spaces are rented for alternative education programs. Other services of the Educational Service Center are provided within local school district facilities.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Northwest Ohio Educational Service Center, the General Fund and the Title VI-B (Individual Disabilities Education Act Grant (B-IDEA)) special revenue fund are the most significant funds.

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Title VI-B special revenue fund.

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

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2007 and fiscal year 2006.

Table 1 Net Assets			
	2007	Governmental Activities 2006	Change
<u>Assets:</u>			
Current and Other Assets	\$8,220,921	\$7,094,201	\$1,126,720
Capital Assets, Net	878,840	893,433	(14,593)
Total Assets	<u>9,099,761</u>	<u>7,987,634</u>	<u>1,112,127</u>
<u>Liabilities:</u>			
Current and Other Liabilities	2,461,601	2,440,431	(21,170)
Long-Term Liabilities	1,214,636	1,117,272	(97,364)
Total Liabilities	<u>3,676,237</u>	<u>3,557,703</u>	<u>(118,534)</u>
<u>Net Assets:</u>			
Invested in Capital Assets	825,783	828,495	(2,712)
Restricted	245,361	228,092	17,269
Unrestricted	4,352,380	3,373,344	979,036
Total Net Assets	<u>\$5,423,524</u>	<u>\$4,429,931</u>	<u>\$993,593</u>

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

A review of the above table demonstrates a somewhat significant increase of almost 16 percent for current and other assets. This is the result of a \$1 million increase in cash and cash equivalents and is due to additional charges to school districts served by the Educational Service Center for paraprofessionals as well as for other support services. This increase is also reflected in the increase in unrestricted net assets.

Table 2 reflects the changes in net assets for fiscal year 2007 and fiscal year 2006.

Table 2
Change in Net Assets

	Governmental Activities		Change
	2007	2006	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$12,707,697	\$11,966,596	\$741,101
Operating Grants and Contributions	7,732,314	7,401,859	330,455
Capital Grants and Contributions		2,000	(2,000)
Total Program Revenues	<u>20,440,011</u>	<u>19,370,455</u>	<u>1,069,556</u>
General Revenues			
Grants and Entitlements	\$1,065,573	\$1,078,239	(\$12,666)
Interest	380,622	230,594	150,028
Miscellaneous	62,961	11,892	51,069
Total General Revenues	<u>1,509,156</u>	<u>1,320,725</u>	<u>188,431</u>
Total Revenues	<u>21,949,167</u>	<u>20,691,180</u>	<u>1,257,987</u>
<u>Expenses:</u>			
Instruction:			
Regular	930,609	917,278	(13,331)
Special	4,515,923	4,735,124	219,201
Adult/Continuing	4,067	5,810	1,743
Support Services:			
Pupils	2,628,708	2,619,572	(9,136)
Instructional Staff	6,852,519	6,354,182	(498,337)
Board of Education	88,498	97,353	8,855
Administration	886,473	935,477	49,004
Fiscal	398,134	378,713	(19,421)
Business	73,753	28,081	(45,672)
Operation and Maintenance of Plant	353,374	285,957	(67,417)
Pupil Transportation	67,708	177,036	109,328
Central	156,084	150,213	(5,871)
Non-Instructional Services	125,901	118,872	(7,029)
Intergovernmental	3,870,679	3,692,101	(178,578)
Interest and Fiscal Charges	3,144	290	(2,854)
Total Expenses	<u>20,955,574</u>	<u>20,496,059</u>	<u>(459,515)</u>
Increase in Net Assets	993,593	195,121	798,472
Net Assets at Beginning of Year	<u>4,429,931</u>	<u>4,234,810</u>	<u>195,121</u>
Net Assets at End of Year	<u>\$5,423,524</u>	<u>\$4,429,931</u>	<u>\$993,593</u>

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Program revenues were 93 percent of total revenues for fiscal year 2007 (nearly the same as for fiscal year 2006) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were almost 58 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center provides services to seventeen local, three exempted village, and three city school districts in Northwest Ohio, as well as some services to various other area school districts.

Total revenues increased by 6 percent, primarily due to an increase in charges for services revenues. Salaries and benefits of employees are invoiced to school districts receiving services and for additional services requested by school districts. Program costs are charged to the school districts for services they contract with the Educational Service Center to provide. Costs are determined from the costs of personnel, fringe benefits, purchased services, supplies, equipment, etc. less any applicable revenue sources available to the Educational Service Center.

With only a 2 percent increase in total expenses, expenses remained very comparable to fiscal year 2006.

Regular instruction costs (4 percent of total expenses) include opportunity programs, alternative programs, suspension programs, and intervention tutors.

Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget with 21.5 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, visual impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, English as a second language, and preschool disabled children. The expenses for special education services increased due to an increase in the number of staff members hired in these special education instructional areas as well as increased salaries and benefits for these employees.

Expenses for the services of nurses, school psychologists, speech therapists, attendance officer, social worker, adapted physical education instructors, occupational therapists, physical therapists, work-study coordinators, and a preschool coordinator represented 12.5 percent of overall expenses and are reflected as pupils support services.

Instructional staff support services were 33 percent of total expenses. These expenses include the costs of special education supervisors, general education consultants, gifted education coordinators, child information management specialists, paraprofessionals (teacher aides), and a technology director. The expenses for instructional support services increased due to an increase in the number of staff members hired in these instructional support areas as well as increased salaries and benefits for these employees.

The County Commissioners charge the Educational Service Center for office space costs. This cost is charged to school districts served, prorated by the dollar amount of services charged by the Educational Service Center per county (four counties served). These costs continued to increase by 20 percent through fiscal year 2007, at which time the County Commissioners can charge the Educational Service Center for 100 percent of office space costs. The Fulton County Commissioners have not charged for office space. The Defiance County office was moved to a facility that also houses the Defiance County Opportunity Center in the fall of 2005. The office space used in Henry and Williams Counties continues to be rented from the respective County Commissioners.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Intergovernmental expenses include the Individual Disabilities Education Act Grant (B-IDEA), Early Childhood Special Education Grant (ECSE), and Limited English Proficiency Grant (LEP). These are flow-through grant resources received and spent by the Educational Service Center on behalf of the school districts.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$930,609	\$917,278	(\$176,218)	(\$214,588)
Special	4,515,923	4,735,124	(4,145,623)	(3,656,728)
Adult/Continuing	4,067	5,810	767	1,885
Support Services:				
Pupils	2,628,708	2,619,572	101,761	314,341
Instructional Staff	6,852,519	6,354,182	3,025,650	3,020,607
Board of Education	88,498	97,353	83,237	92,161
Administration	886,473	935,477	868,580	921,991
Fiscal	398,134	378,713	308,667	304,259
Business	73,753	28,081	73,753	28,081
Operation and Maintenance of Plant	353,374	285,957	249,793	198,834
Pupil Transportation	67,708	177,036	12,675	67,194
Central	156,084	150,213	115,150	119,090
Non-Instructional Services	125,901	118,872	59,729	42,941
Intergovernmental	3,870,679	3,692,101	(65,502)	(114,754)
Interest and Fiscal Charges	3,144	290	3,144	290
Total Expenses	<u>\$20,955,574</u>	<u>\$20,496,059</u>	<u>\$515,563</u>	<u>\$1,125,604</u>

As noted earlier, program revenues provide for 93 percent of the costs for providing services. Funding for gifted and preschool units are provided by the State based on the training and experience of the staff employed in those positions. These units have been and continue to be funded below actual costs. The remaining costs are covered by general revenues.

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had a 21 percent increase in fund balance from the prior fiscal year, a 6 percent increase in revenues with just a 2 percent in expenditures led to this increase. For the Title VI-B (Individual Disabilities Education Act Grant (B-IDEA)) Fund, the fund balance was \$0 at the end of the fiscal year.

Capital Assets

At June 30, 2007, the Educational Service Center had \$878,840 invested in capital assets (net of accumulated depreciation), and decrease of less than 2 percent. For further information regarding the Educational Service Center's capital assets, refer to Note 6 to the basic financial statements.

Current Issues

No significant increases in funding are expected for fiscal year 2008 from the State. With the uncertainty of the economy, funding cuts could be in the future for the Educational Service Center as well as other school districts in Ohio. Preschool unit funding has been cut the past several years and may well continue.

Costs for services will increase due to salary schedule increases and staff moving up the salary schedules, plus ever increasing insurance costs as the Educational Service Center tries to maintain quality services with quality personnel. Since the Educational Service Center charges school districts for services based on costs, charges for services will increase in fiscal year 2008.

Community Alternative Funding System (CAFS) is a program of Federal Medicaid reimbursements for services to Medicaid eligible students. These funds have been segregated within the General Fund based on the year to which the funding applies. In fiscal year 2007, CAFS funds were received pursuant to a process known as a final settlement. A final settlement is a reconciliation of costs to CAFS payments for a fiscal year resulting in either additional funds due to an entity or funds due to be returned from an entity. The Educational Service Center received final settlements for fiscal years 2002, 2003, and 2004. None of these funds were used as a credit against school districts' program costs; therefore, the General Fund balance increased from these resources.

The Educational Service Center had determined that CAFS monies will be held until settlements are received to ensure that sufficient funds remain on hand in the event the Educational Service Center is ordered to return funds to the State and, in turn, the Federal government. Once settlements are received, then school districts' program costs are reduced by a prorated share of CAFS funds. A share of those settled CAFS funds are used for expenses of the Educational Service Center not charged to school districts for services. That determination has changed as the need for a single office facility has become a goal, due to uncertainties of lease arrangements and costs.

CAFS continued to be available through fiscal year 2005 but have ceased to flow to school districts under this program for fiscal year 2006 claims. The termination of CAFS funding began to affect the Educational Service Center in fiscal year 2006. Since the Educational Service Center has been conservative in holding funds until settlements are received (except fiscal year 2000, 2001, and 2002), the funds received in fiscal year 2002 and after, which have been held in reserve, are not being budgeted for expenditure.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The Educational Service Center will continue with smaller renovations to the IEC building now that the major issues have been addressed. Those costs will be much lower and charged to school districts as part of their program costs.

The Educational Service Center's Defiance County office is housed in space leased from a local realtor. The remaining three offices remain in spaces provided by the respective County Commissioners. There is no cost for the Fulton County site. The Commissioners in Henry and Williams Counties have elected to charge the Educational Service Center for office space. The Educational Service Center Board has formed a sub-committee to discuss future office facility needs. Since the close of fiscal year 2007, the Williams County office has been relocated to a facility owned by a private individual.

An Educational Regional Service System was created with substitute H.B.115. The Educational Regional Service System (ERSS) is to provide support services to school districts, community schools, and chartered nonpublic schools in each of sixteen designated regions. It required the State Board of Education to adopt rules by July 1, 2007, establishing a process for school districts to transfer to a different ERSS region by June 30, 2009. It establishes an advisory council for each ERSS region to coordinate the delivery of services within the region. The Department of Education is directed to select a fiscal agent for each ERSS region. Fiscal agents are required to enter into performance contracts with the Department for the implementation of state and regional education initiatives and school improvement efforts. It establishes a State Regional Alliance Advisory Board to address issues regarding the operation of ERSS. It also permits school districts, community schools, and chartered nonpublic schools to receive services from any educational service center or data acquisition site in the state, except that local school districts must receive supervisory services required by law from the Educational Service Center in whose territory they are located. The effect of this change in funding is not expected to have a significant impact on the Educational Service Center.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Dorthy K. Pietrykowski, Chief Financial Officer, Northwest Ohio Educational Service Center, 104 East Washington Street, Suite 302, Napoleon, OH 43545-1660.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Statement of Net Assets
June 30, 2007**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$7,758,349
Accounts Receivable	50,289
Accrued Interest Receivable	46,121
Intergovernmental Receivable	352,816
Materials and Supplies Inventory	13,346
Depreciable Capital Assets, Net	<u>878,840</u>
Total Assets	<u>9,099,761</u>
 <u>Liabilities:</u>	
Accounts Payable	9,227
Accrued Wages and Benefits Payable	2,070,308
Matured Compensated Absences Payable	9,520
Intergovernmental Payable	372,546
Long-Term Liabilities:	
Due Within One Year	114,507
Due in More Than One Year	<u>1,100,129</u>
Total Liabilities	<u>3,676,237</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	825,783
Restricted For:	
Migrant and OMEC	201,836
Other Purposes	43,525
Unrestricted	<u>4,352,380</u>
Total Net Assets	<u><u>\$5,423,524</u></u>

See Accompanying Notes to Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$930,609	\$785,925	\$320,902	\$176,218
Special	4,515,923	6,994,122	1,667,424	4,145,623
Adult/Continuing	4,067		3,300	(767)
Support Services:				
Pupils	2,628,708	1,836,941	690,006	(101,761)
Instructional Staff	6,852,519	2,919,880	906,989	(3,025,650)
Board of Education	88,498	5,261		(83,237)
Administration	886,473		17,893	(868,580)
Fiscal	398,134	49,959	39,508	(308,667)
Business	73,753			(73,753)
Operation and Maintenance of Plant	353,374	78,870	24,711	(249,793)
Pupil Transportation	67,708	18,292	36,741	(12,675)
Central	156,084	18,447	22,487	(115,150)
Non-Instructional Services	125,901		66,172	(59,729)
Intergovernmental	3,870,679		3,936,181	65,502
Interest and Fiscal Charges	3,144			(3,144)
Total Governmental Activities	<u>\$20,955,574</u>	<u>\$12,707,697</u>	<u>\$7,732,314</u>	<u>(515,563)</u>
<u>General Revenues:</u>				
Grants and Entitlements not Restricted to Specific Programs				1,065,573
Interest				380,622
Miscellaneous				62,961
Total General Revenues				<u>1,509,156</u>
Change in Net Assets				993,593
Net Assets at Beginning of Year				4,429,931
Net Assets at End of Year				<u>\$5,423,524</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2007**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$7,554,843	\$203,506	\$7,758,349
Accounts Receivable	50,289		50,289
Accrued Interest Receivable	46,121		46,121
Intergovernmental Receivable	227,816	125,000	352,816
Materials and Supplies Inventory	13,346		13,346
Total Assets	\$7,892,415	\$328,506	\$8,220,921
 <u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$8,416	\$811	\$9,227
Accrued Wages and Benefits Payable	2,016,672	53,636	2,070,308
Matured Compensated Absences Payable	9,520		9,520
Intergovernmental Payable	355,350	17,196	372,546
Deferred Revenue	237,473		237,473
Total Liabilities	2,627,431	71,643	2,699,074
 <u>Fund Balances:</u>			
Reserved for Encumbrances	47,965	67,610	115,575
Unreserved, Reported in:			
General Fund	5,217,019		5,217,019
Special Revenue Funds		189,253	189,253
Total Fund Balances	5,264,984	256,863	5,521,847
Total Liabilities and Fund Balances	\$7,892,415	\$328,506	\$8,220,921

See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007**

Total Governmental Fund Balances \$5,521,847

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

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds. 878,840

Other long-term assets are not available to pay for current
period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$41,296	
Accrued Interest Receivable	19,060	
Intergovernmental Receivable	<u>177,117</u>	
		237,473

Some liabilities are not due and payable in the current
period and, therefore, are not reported in the funds:

Compensated Absences	(1,161,579)	
Capital Leases	<u>(53,057)</u>	
		<u>(1,214,636)</u>

Net Assets of Governmental Activities \$5,423,524

See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007**

	General	Title VI-B	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$3,306,603	\$3,713,392	\$1,656,451	\$8,676,446
Interest	369,308			369,308
Tuition and Fees	146,620			146,620
Customer Services	16,200,957			16,200,957
Gifts and Donations	8,149		10,000	18,149
Miscellaneous	19,732			19,732
Total Revenues	20,051,369	3,713,392	1,666,451	25,431,212
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	639,591		285,579	925,170
Special	6,232,942		91,787	6,324,729
Adult/Continuing			4,067	4,067
Support Services:				
Pupils	4,255,999		163,827	4,419,826
Instructional Staff	6,169,530	2,573	636,135	6,808,238
Board of Education	88,498			88,498
Administration	858,891		20,164	879,055
Fiscal	348,219		44,551	392,770
Business	69,633			69,633
Operation and Maintenance of Plant	306,728		36,787	343,515
Pupil Transportation	5,211		47,604	52,815
Central	98,842		57,242	156,084
Non-Instructional Services		66,936	65,154	132,090
Capital Outlay	14,822			14,822
Intergovernmental		3,647,827	222,852	3,870,679
Debt Service:				
Principal Retirement	11,881			11,881
Interest and Fiscal Charges	3,144			3,144
Total Expenditures	19,103,931	3,717,336	1,675,749	24,497,016
Excess of Revenues Over (Under) Expenditures	947,438	(3,944)	(9,298)	934,196
<u>Other Financing Sources (Uses):</u>				
Transfers In			30,000	30,000
Transfers Out	(30,000)			(30,000)
Total Other Financing Sources (Uses)	(30,000)		30,000	
Changes in Fund Balances	917,438	(3,944)	20,702	934,196
Fund Balances at Beginning of Year	4,347,546	\$3,944	236,161	4,587,651
Fund Balances at End of Year	\$5,264,984		\$256,863	\$5,521,847

See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2007**

Changes in Fund Balances - Total Governmental Funds \$934,196

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

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

Capital Outlay	\$114,212	
Depreciation	(110,629)	
	3,583	3,583

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (18,176)

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

Intergovernmental	103,292	
Interest	11,314	
Customer Services	13,519	
Miscellaneous	43,229	
	171,354	171,354

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 11,881

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (109,245)

Change in Net Assets of Governmental Activities \$993,593

See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$61,315</u></u>
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Liabilities:

Intergovernmental Payable	<u><u>\$61,315</u></u>
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See Accompanying Notes to the Basic Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - REPORTING ENTITY

Northwest Ohio Educational Service Center (the "Educational Service Center") is located in Napoleon, Ohio, the Henry County seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to seventeen local, three exempted village, and three city school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Governing Board elected from subdistricts within the four county area (Defiance, Fulton, Henry, and Williams counties). The Board consists of nine members elected for staggered four year terms. The Educational Service Center has twenty-six administrators, two hundred forty classified employees, and one hundred ninety-seven certified employees who provide services to the local, exempted village, and city school districts.

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

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

The Educational Service Center participates in five jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Ohio School Plan, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 14 and 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northwest Ohio Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Educational Service Center's accounting policies.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Educational Service Center's two major funds are the General Fund and the Title VI-B special revenue 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 to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Title VI-B Fund - The Title VI-B Fund is used to account for grant resources received through the Ohio Department of Education which provide support for educating handicapped students. Some of these resources are also passed through or spent on behalf of the local, exempted village, and city school districts served by the Educational Service Center.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2007. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for various payroll related deductions.

C. Measurement Focus

Government-Wide Financial Statements

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Deferred Revenues

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

Expenses/Expenditures

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

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

E. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in the pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2007, investments were limited to federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value, which is based on quoted market price or current share price. 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, 2007.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2007 was \$369,308, which includes \$33,880 assigned from other Educational Service Center funds.

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

F. Inventory

Inventory is stated at cost on a first-in first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

G. Capital Assets

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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

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

<u>Description</u>	<u>Useful Lives</u>
Buildings	20-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	8 years

H. Compensated Absences

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

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

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

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

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases are recognized as liabilities on the fund financial statements when due.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net assets represent federal and state grants restricted to expenditure for specified purposes.

The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, there were no net assets restricted by enabling legislation.

K. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

L. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2007, these funds included the Title VI-B (Individual Disabilities Education Act), Early Childhood Special Education, and Limited English Proficiency special revenue funds.

M. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

N. Estimates

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 3 - DEPOSITS AND INVESTMENTS – (CONTINUED)

7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2007, the Educational Service Center had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Notes	\$99,770	7/18/07
Federal Home Loan Bank Bonds	249,845	7/20/07
Federal Home Loan Bank Bonds	199,937	7/30/07
Federal Home Loan Bank Bonds	199,937	9/27/07
Federal Home Loan Bank Bonds	249,375	10/26/07
Federal Home Loan Bank Bonds	199,500	2/19/08
Federal Home Loan Bank Bonds	246,485	4/28/08
Federal Home Loan Bank Bonds	249,220	5/23/08
Federal Home Loan Bank Bonds	199,688	6/13/08
Federal Home Loan Bank Bonds	209,935	6/25/08
Federal Home Loan Bank Bonds	247,032	7/14/08
Federal Home Loan Bank Bonds	124,609	9/12/08
Federal Home Loan Bank Bonds	149,484	12/12/08
Federal Home Loan Bank Bonds	247,735	3/16/09
Federal Home Loan Bank Bonds	149,250	6/18/09
Federal National Mortgage Association Notes	249,845	8/24/07
Federal National Mortgage Association Notes	118,572	9/24/07
Federal National Mortgage Association Notes	249,452	2/1/08
Federal National Mortgage Association Notes	199,876	9/5/08
Federal National Mortgage Association Notes	199,438	11/20/09
Federal Home Loan Mortgage Corporation Notes	122,150	12/11/07
Mutual Funds	15,811	8 days average
STAR Ohio	3,629	38.56 days average
Total Investments	<u>\$4,180,575</u>	

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 3 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

All of the federal agency securities and mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must consist of securities listed in items 1 and 2 on page 27.

The Educational Service Center limits the amount it may invest in any one issuer to no more than 80 percent of its total investment portfolio. The following table indicates the percentage of investments to the Educational Service Center's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	\$3,021,802	72.6%
Federal National Mortgage Association	1,017,183	24.4
Federal Home Loan Mortgage Corporation	122,150	2.9

NOTE 4 - STATE FUNDING

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$40.52 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Education Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007, consisted of accounts, accrued interest, and intergovernmental receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Program Costs	\$70,337
Various School Districts	3,748
CAFS	106,293
Miscellaneous	47,438
Total General Fund	227,816
Other Governmental Funds	
Migrant and OMEC	125,000
Total Intergovernmental Receivables	\$352,816

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities				
Depreciable Capital Assets				
Buildings	\$643,159			\$643,159
Furniture, Fixtures, and Equipment	1,004,313	\$75,332	\$(93,986)	985,659
Vehicles	461,083	38,880	(344,194)	155,769
Total Depreciable Capital Assets	2,108,555	114,212	(438,180)	1,784,587
Less Accumulated Depreciation				
Buildings	(93,085)	(14,143)		(107,228)
Furniture, Fixtures, and Equipment	(749,139)	(79,334)	90,555	(737,918)
Vehicles	(372,898)	(17,152)	329,449	(60,601)
Total Accumulated Depreciation	(1,215,122)	(110,629)	420,004	(905,747)
Governmental Activities Capital Assets, Net	\$893,433	\$3,583	(\$18,176)	\$878,840

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 6 - CAPITAL ASSETS – (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,787
Special	22,730
Pupils	13,805
Instructional Staff	7,196
Administration	33,513
Fiscal	1,944
Business	2,273
Operation and Maintenance of Plant	11,907
Pupil Transportation	14,893
Noninstructional	581
Total Depreciation Expense	\$110,629

NOTE 7 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Ohio School Plan	
General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Excess Liability	2,000,000
Auto Coverage	
Liability	2,000,000
Uninsured Motorist	1,000,000
Commercial Property	4,106,698

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2007, the Educational Service Center participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 7 - RISK MANAGEMENT – (CONTINUED)

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Educational Service Center pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Educational Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005, was \$1,239,096, \$1,256,955, and \$1,149,002, respectively; 86 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$21,958 made by the Educational Service Center and \$35,875 made by plan members.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, was \$463,073, \$447,544, and \$397,329, respectively; 87 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2007, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount was \$97,004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information available). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$209,492 for fiscal year 2007.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 10 - OTHER EMPLOYEE BENEFITS – (CONTINUED)

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

B. Health Care Benefits

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program. Through this program, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the coverage selected, the employees share the cost of the monthly premium with the Board.

NOTE 11 - LONG-TERM OBLIGATIONS

Changes in the Educational Service Center's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at 6/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/07</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$1,052,334	\$184,681	\$75,436	\$1,161,579	\$101,983
Capital Leases	64,938		11,881	53,057	12,524
Total Governmental Activities	<u>\$1,117,272</u>	<u>\$184,681</u>	<u>\$87,317</u>	<u>\$1,214,636</u>	<u>\$114,507</u>

Compensated absences will be paid from the General Fund and the Migrant and OMEC special revenue fund. Capital leases will be paid from the General Fund.

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

The Educational Service Center entered into capital leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances. Principal payments in 2007 were \$11,881.

	<u>Governmental Activities</u>
Property under Capital Lease	\$65,900
Less Accumulated Depreciation	(15,378)
Total June 30, 2007	<u>\$50,522</u>

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE – (CONTINUED)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$12,524	\$2,501
2009	13,201	1,824
2010	13,916	1,110
2011	13,416	352
Total	<u>\$53,057</u>	<u>\$5,787</u>

NOTE 13 - INTERFUND TRANSFERS

During fiscal year 2007, the General Fund made transfers to other governmental funds, in the amount of \$30,000, to subsidize operations of other funds.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2007, the Educational Service Center paid \$80,477 to NWOCA for various services. Financial information can be obtained from NWOCA, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

C. Four County Career Center

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The degree of control exercised by the Educational Service Center is limited to its representation on the Board. The Career Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, Route 1, Box 245A, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

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

E. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 15 - INSURANCE POOLS

A. Ohio School Plan

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

B. Northern Buckeye Education Council Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Program is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

C. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTES 16 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2007.

B. Litigation

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$3,306,603	
Interest			354,403	
Tuition and Fees			146,620	
Customer Services			16,200,074	
Gifts and Donations			8,149	
Miscellaneous			9,525	
Total Revenues			<u>20,025,374</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	\$647,849	\$702,074	647,296	\$54,778
Special	6,835,811	6,649,234	6,283,767	365,467
Support Services:				
Pupils	6,474,086	6,290,827	4,245,521	2,045,306
Instructional Staff	6,312,884	6,340,312	6,135,544	204,768
Board of Education	119,510	119,510	89,434	30,076
Administration	1,047,829	1,291,156	874,693	416,463
Fiscal	381,830	380,230	349,441	30,789
Business	90,499	143,154	69,716	73,438
Operation and Maintenance of Plant	405,677	390,827	318,284	72,543
Pupil Transportation	83,300	11,200	4,868	6,332
Central	118,000	127,150	103,330	23,820
Capital Outlay	20,301	70,301	31,923	38,378
Total Expenditures	<u>22,537,576</u>	<u>22,515,975</u>	<u>19,153,817</u>	<u>3,362,158</u>
Excess of Revenues Over (Under) Expenditures	<u>(22,537,576)</u>	<u>(22,515,975)</u>	<u>871,557</u>	<u>23,387,532</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures			9,453	9,453
Refund of Prior Year Receipts	(1,000)	(201,579)		201,579
Advances Out	(20,000)	(40,000)		40,000
Transfers Out	(30,000)	(30,000)	(30,000)	
Total Other Financing Sources (Uses)	<u>(51,000)</u>	<u>(271,579)</u>	<u>(20,547)</u>	<u>251,032</u>
Changes in Fund Balance	(22,588,576)	(22,787,554)	851,010	23,638,564
Fund Balance at Beginning of Year	6,588,534	6,588,534	6,588,534	
Prior Year Encumbrances Appropriated	71,309	71,309	71,309	
Fund Balance at End of Year	<u>6,588,534</u>	<u>6,588,534</u>	<u>\$7,510,853</u>	<u>\$23,638,564</u>

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
Title VI-B Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$3,713,392	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special		\$1,823,228	1,823,228	
Support Services:				
Pupils		1,823,228	1,823,228	
Instructional Staff	\$3,944	2,573	2,573	
Non-Instructional Services		66,936	66,936	
Total Expenditures	3,944	3,715,965	3,715,965	
<u>Other Financing Uses:</u>				
Refund of Prior Year Receipts		(1,371)	(1,371)	
Changes in Fund Balance	(3,944)	(3,717,336)	(3,944)	3,713,392
Fund Balance at Beginning of Year	21	21	21	
Prior Year Encumbrances Appropriated	3,923	3,923	3,923	
Fund Balance at End of Year				\$3,713,392

See Accompanying Notes to the Supplemental Section

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE SUPPLEMENTAL SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - BUDGETARY PROCESS

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 Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

The Educational Service Center's Board adopts an annual appropriations 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 Chief Fiscal Officer 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 appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE SUPPLEMENTAL SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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

	General Fund	Title VI-B Fund
GAAP Basis	\$917,438	(\$3,944)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2006, Received in Cash FY 2007	74,424	
Accrued FY 2007, Not Yet Received in Cash	(86,753)	
Expenditure Accruals:		
Accrued FY 2006, Paid in Cash FY 2007	(2,382,053)	
Accrued FY 2007, Not Yet Paid in Cash	2,389,958	
Unrecorded Cash Activity 2006	(15,837)	
Unrecorded Cash Activity 2007	11,624	
Materials and Supplies Inventory	(2,177)	
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(55,614)	
Budget Basis	\$851,010	(\$3,944)

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30,2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Migrant Education_State Grant Program	124297-MGS1-06	84.011	\$187,477	\$202,270
	124297-MGS1-07		548,833	474,432
Total Migrant Education			<u>736,310</u>	<u>676,702</u>
Special Education Cluster:				
Special Education_grants to States	124297-6BSF-06	84.027		2,573
	124297-6BSF-07		3,712,022	3,713,392
Total Special Education_grants to States			<u>3,712,022</u>	<u>3,715,965</u>
Special Education_Preschool Grants	124297-PGS1-06	84.173		5,562
	124297-PGS1-07		171,183	171,285
Total Special Education_Preschool Grants			<u>171,183</u>	<u>176,847</u>
Total Special Education Cluster			<u>3,883,205</u>	<u>3,892,812</u>
Migrant Education Coordination Program	124297-MESI-07	84.144	86,623	34,000
Twenty-First Century Community Learning Centers	124297-T1S1-05	84.287		46,292
	124297-T1S1-07		290,791	235,801
Total Twenty-First Century Community Learning Centers			<u>290,791</u>	<u>282,093</u>
English Language Acquisition Grants	124297-T3S1-07	84.365	51,504	51,504
Total U.S. Department of Education			<u>5,048,433</u>	<u>4,937,111</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	FY 2001	93.778	142,220	
	FY 2002		112,813	
	FY 2003		175,246	
	FY 2004		109,525	
Total Medical Assistance Program			<u>539,804</u>	
<i>Passed Through Henry County Department of Job and Family Services</i>				
Temporary Assistance for Needy Families	FY 2006	93.558		6,399
Total U.S. Department of Health and Human Services			<u>539,804</u>	<u>6,399</u>
Total			<u><u>\$5,588,237</u></u>	<u><u>\$4,943,510</u></u>

The accompanying notes are an integral part of this schedule.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

NOTE C - COMMUNITY ALTERNATIVE FUNDING SYSTEM MEDICAID

The service Center received \$539,804 from CAFS settlement during the fiscal year. These amounts relate to settlements for CAFS service provided during prior years.

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Mary Taylor, CPA

Auditor of State

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

Northwest Ohio Educational Service Center
Henry County
104 E. Washington Street, Suite 302
Napoleon, Ohio 43545-1660

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northwest Ohio Educational Service Center, Henry County, (the Service Center) as of and for the year ended June 30, 2007, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 26, 2008. 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 Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 26, 2008



Mary Taylor, CPA

Auditor of State

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

Northwest Ohio Educational Service Center
Henry County
104 E. Washington Street, Suite 302
Napoleon, Ohio 43545-1660

To the Governing Board:

Compliance

We have audited the compliance of the Northwest Ohio Educational Service Center (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to administer a federal program such that there is more than a remote likelihood that the Service Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Service Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

February 26, 2008

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster – CFDA # 84.027, # 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

NORTHWEST OHIO EDUCATIONAL SERVICE CENTER

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 20, 2008**