Medina County Educational Service Center

Medina County, Ohio

Regular Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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Board of Education
Medina County Educational Service Center
124 W. Washington St.
Medina, Ohio 44256

We have reviewed the *Independent Auditor's Report* of the Medina County Educational Service Center, Medina County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 28, 2008

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Medina County Educational Service Center
Medina County, Ohio

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Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Medina County Educational Service Center
124 W. Washington St
Medina, Ohio 44256

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that 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 Educational Service Center, as of June 30, 2006, and the respective changes in financial position, where applicable, 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 December 14, 2007 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 14, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*" and GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation"*, and GASB Statement No. 47, *"Accounting for Termination Benefits"*.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

December 14, 2007

The discussion and analysis of Medina County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2006. 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 financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2006 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".

- In total, net assets increased by $431,257.

- Revenues for governmental activities totaled $4,164,303 in 2006. Of this total, 30 percent consisted of General revenues while Program revenues accounted for the balance of 70 percent.

- Program expenses totaled $3,733,046. Instructional expenses made up 16 percent of this total while support services accounted for 84 percent. Other expenses rounded out the remaining 1 percent.

Using this Annual Financial Report

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

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 and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Medina County Educational Service Center, the general fund by far is the most significant fund.

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two 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 that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Effective with this fiscal year, the *Statement of Net Asset*s and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, pupil transportation and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	*2005*
Assets		
Current and Other Assets	$ 1,673,634	$ 1,178,985
Capital Assets, Net	86,375	89,290
Total Assets	1,760,009	1,268,275
Liabilities		
Current and Other Liabilities	166,380	110,251
Long-Term Liabilities		
Due Within One Year	70,644	48,351
Due in More than One Year	61,787	79,732
Total Liabilities	298,811	238,334
Net Assets		
Invested in Capital Assets, Net of Debt	86,375	89,290
Restricted for Other Purposes	85,048	44,109
Unrestricted	1,289,775	896,542
Total Net Assets	$1,461,198	$1,029,941

Total assets increased by $491,734. Current and Other Assets increased by $494,649. Cash and cash equivalents increased due to increased collections from tuition and fees and customer service charges. Liabilities increased by $60,477 due to increased accrued wages and intergovernmental liabilities.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center remained stable as evidenced by the increase in net assets.

Table 2 shows the changes in net assets from fiscal year 2006 to fiscal year 2005. A comparative analysis of government-wide data is presented below.

Table 2
Changes in Net Assets

	Governmental Activities 2006	*Governmental Activities 2005*
Revenues		
Program Revenues:		
Charges for Services	$2,433,365	$1,757,588
Operating Grants and Contributions	497,334	497,491
Total Program Revenues	2,930,699	2,255,079
General Revenues:		
Grants and Entitlements	1,180,075	1,268,184
Investments	53,529	25,254
Total General Revenues	1,233,604	1,293,438
Total Revenues	4,164,303	3,548,517
Program Expenses		
Instruction		
Regular	205,888	141,429
Special	183,815	162,569
Adult/Continuing	162,261	105,545
Vocational	47,076	1,607
Other	539	5,901
Support Services:		
Pupil	123,431	9,408
Instructional Staff	1,999,979	2,071,538
Board of Education	40,929	41,031
Administration	185,897	170,088
Fiscal	144,501	178,595
Business	331,687	254,078
Pupil Transportation	16,740	17,274
Central	250,162	204,754
Extracurricular Activities	40,141	39,332
Total Program Expenses	3,733,046	3,403,149
Increase in Net Assets	431,257	145,368
Net Assets Beginning of Year	1,029,941	884,573
Net Assets End of Year	$1,461,198	$1,029,941

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. There was no significant change in the expenses from one year to the next. The Educational Service Center offered similar services in both years. Expenses decreased slightly from fiscal year 2005, in the amount of $329,897.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The $802,347 Net Cost of Services 2006 tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2006	*Net Cost of Services 2006*
Instruction:		
Regular	$205,888	$125,968
Special	183,815	(130,327)
Adult/Continuing	162,261	(30,102)
Vocational	47,076	(984)
Other	539	(4,936)
Support Services:		
Pupil	123,431	33,657
Instructional Staff	1,999,979	397,593
Board of Education	40,929	40,929
Administration	185,897	(31,868)
Fiscal	144,501	144,501
Business	331,687	88,933
Pupil Transportation	16,740	(9,651)
Central	250,162	193,930
Extracurricular Activities	40,141	(15,296)
Total	$3,733,046	$802,347

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 19 and 20 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources totaled $4,158,376 and expenditures and other financing uses totaled $3,725,783. The General Fund balance increased $398,748 primarily due to increased customer sales and services revenue.

Capital Assets

At the end of fiscal 2006, the Educational Service Center had $86,375 invested in furniture, fixtures and equipment and vehicles, net of accumulated depreciation. Table 4 shows fiscal 2006 values compared to 2005.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2006	*2005*
Furniture and Fixtures	$87,087	$83,468
Vehicles	(712)	5,823
Totals	$86,375	$89,291

All capital assets are reported at historical cost. For more information on capital assets refer to Note 7 of the basic financial statements.

Current Financial Related Activities

Medina County Educational Service Center is financially sound. The Board and administration closely monitor its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michelle McNeely, Treasurer, at Medina County Educational Service Center, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

Medina County Educational Service Center

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$1,585,672
Accrued Interest Receivable	3,879
Intergovernmental Receivable	84,083
Noncurrent Assets:	
Depreciable Capital Assets, net	86,375
Total Assets	1,760,009
Liabilities	
Accounts Payable	12,206
Accrued Wages and Benefits	108,953
Intergovernmental Payable	45,221
Long-Term Liabilities:	
Due Within One Year	70,644
Due in More Than One Year	61,787
Total Liabilities	298,811
Net Assets	
Invested in Capital Assets, Net of Related Debt	86,375
Restricted for Other Purposes	85,048
Unrestricted	1,289,775
Total Net Assets	$1,461,198

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2006

		Program Revenues		
	Expenses	***Charges for Services and Sales***	***Operating Grants and Contributions***	***Net (Expense) Revenue and Changes in Net Assets***
Governmental Activities				
Instruction:				
Regular	$205,888	$79,920	$0	($125,968)
Special	183,815	275,547	38,595	130,327
Adult/Continuing	162,261	100,985	91,378	30,102
Vocational	47,076	48,060	0	984
Other	539	0	5,475	4,936
Support Services:				
Pupils	123,431	73,990	15,784	(33,657)
Instructional Staff	1,999,979	1,385,538	216,848	(397,593)
Board of Education	40,929	0	0	(40,929)
Administration	185,897	217,765	0	31,868
Fiscal	144,501	0	0	(144,501)
Business	331,687	155,462	87,292	(88,933)
Pupil Transportation	16,740	26,391	0	9,651
Central	250,162	26,606	29,626	(193,930)
Extracurricular Activities	40,141	43,101	12,336	15,296
Totals	$3,733,046	$2,433,365	$497,334	(802,347)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	1,180,075
Investment Earnings	53,529
Total General Revenues	1,233,604
Change in Net Assets	431,257
Net Assets Beginning of Year	1,029,941
Net Assets End of Year	$1,461,198

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$1,500,910	$84,763	$1,585,673
Accrued Interest Receivable	3,879	0	3,879
Interfund Receivable	6,920	0	6,920
Intergovernmental Receivable	67,108	16,975	84,083
Total Assets	$1,578,817	$101,738	$1,680,555
Liabilities			
Accounts Payable	$2,437	$9,769	$12,206
Accrued Wages and Benefits	108,953	0	108,953
Interfund Payable	0	6,920	6,920
Intergovernmental Payable	45,221	0	45,221
Deferred Revenue	5,927	0	5,927
Total Liabilities	162,538	16,689	179,227
Fund Balances			
Reserved for Encumbrances	16,049	14,391	30,440
Unreserved, Undesignated, Reported in:			
General Fund	1,400,230	0	1,400,230
Special Revenue Funds	0	70,658	70,658
Total Fund Balances	1,416,279	85,049	1,501,328
Total Liabilities and Fund Balances	$1,578,817	$101,738	$1,680,555

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances	$1,501,328
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	86,375
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	5,926
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	(132,431)
Net Assets of Governmental Activities	$1,461,198

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$1,575,444	$100,605	$1,676,049
Interest	53,529	0	53,529
Gifts and Donations	0	1,360	1,360
Customer Sales and Services	2,324,453	83,855	2,408,308
Miscellaneous	0	19,130	19,130
Total Revenues	3,953,426	204,950	4,158,376
Expenditures			
Current:			
Instruction:			
Regular	190,790	0	190,790
Special	178,739	10,291	189,030
Vocational	45,609	0	45,609
Adult/Continuing	0	158,459	158,459
Other	0	539	539
Support Services:			
Pupils	123,120	0	123,120
Instructional Staff	2,022,338	729	2,023,067
Board of Education	40,929	0	40,929
Administration	184,539	0	184,539
Fiscal	142,910	0	142,910
Business	325,680	0	325,680
Pupil Transportation	16,740	0	16,740
Central	244,230	0	244,230
Operation of Non-Instructional Services	0	1,087	1,087
Extracurricular Activities	39,054	0	39,054
Total Expenditures	3,554,678	171,105	3,725,783
Excess of Revenues Over Expenditures	398,748	33,845	432,593
Fund Balances Beginning of Year	1,017,531	51,204	1,068,735
Fund Balances End of Year	$1,416,279	$85,049	$1,501,328

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds		$432,593
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Assets - Additions	13,819	
Capital Assets - Disposals	(122)	
Depreciation	(16,613)	
Total		(2,916)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		5,926
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(4,346)
Changes in Net Assets of Governmental Activities		$431,257

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust
	Special Trust
Assets	
Equity in Pooled Cash and Cash Equivalents	$108,425
Total Assets	108,425
Net Assets	
Held in Trust for Scholarships	108,425
Total Net Assets	$108,425

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
Additions	
Gifts and Contributions	$1,150
Interest	4,779
Total Additions	5,929
Deductions	
Scholarships Awarded	5,874
Total Deductions	5,874
Change in Net Assets	55
Net Assets Beginning of Year	108,370
Net Assets End of Year	$108,425

See Accompanying Notes to the Basic Financial Statements

Note 1 - Description of the Educational Service Center

The Medina County Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 43 noncertificated, 49 certificated teaching personnel, and 3 administrators who provide services to 30,275 students through the school districts in Medina County.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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 if 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. The Educational Service Center has no component units.

The Educational Service Center is associated with the Lake Erie Educational Computer Association (LEECA) which is defined as a Jointly Governed Organization, the Sheakley Uniservice, Inc’s Worker’s Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB - pronouncements. Explanation of the Educational Service Center’s more significant policies follow.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at 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 business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements During the 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 statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

General Fund The general fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

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

Fiduciary Fund Type 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 therefore not available to support the Educational Service Center's own programs. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or 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 an 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 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

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

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

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

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

E. Budgetary Data

Although not legally required, the Center adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Data (continued)

Center continued to have its Board approve appropriations and estimated revenues. The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2006, investments were limited to U. S. Federal Government Agencies, Certificates of Deposit, and STAR Ohio, the State Treasurer's Investment Pool. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in the State Treasury Asset Reserve ("STAR Ohio") during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2006, the general fund received interest earned in the amount of $53,529 and the private purpose trust received interest earned in the amount of $4,779.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

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

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives of five to ten years for furniture and fixtures and five year for vehicles.

I. Interfund Balances

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

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Note 2 - Summary of Significant Accounting Policies (continued)

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. 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 balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other government.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets restricted for other purposes include assets restricted for grants. None of the Educational Service Center’s restricted net assets were restricted by enabling legislation.

N. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

O. 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

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Note 3 - Deposits and Investments (continued)

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,

Note 3 - Deposits and Investments (continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was $199,557. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2006, $523,949 of the Educational Service Center's bank balance of which $26,964 was covered by pooled collateral by the financial institution, while $496,985 was covered by Federal Deposit Insurance Corporation.

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

Investments As of June 30, 2006, the Educational Service Center had the following investments and maturities:

Investment Type	*Fair Value*	*6 months or Less*
STAROhio	$74,798	$74,798
Money Market	1,119,742	1,119,742
FHLB	300,000	300,000
Totals	$1,494,540	$1,494,540

The weighted average maturity of the investment is 1.07 years

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

Credit Risk. The Educational Service Center's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned an AAAm market rating to STAR Ohio.

Note 3 - Deposits and Investments (continued)

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

Investment Type	*Fair Value*	*Percent Of Total*
STAROhio	$74,798	5.00%
Money Market	1,119,742	74.93
FHLB	300,000	20.07
Totals	$1,494,540	100.00%

Note 4 - Receivables

Receivables at June 30, 2006, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund:	
Customer Services	$67,108
Total General Fund	67,108
Special Revenue Fund:	
Bus Driver Training	16,975
Total Special Revenue Fund	16,975
Total Intergovernmental Receivables	$84,083

Note 5 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives $47.02 for each of the 30,275 students who are provided services. The $47.02 is comprised of the following: $6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, $40.52 times the ADM is paid by the State Board of Education from State funds.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of $47.02 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 6 - Jointly Governed Organizations and Public Entity Risk Pools

A. Jointly Governed Organizations

The Lake Erie Educational Computer Association (LEECA) is a not-for profit computer organization owned and operated by 31 class "C" sites in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These "C" sites are comprised of various public school districts and educational service centers in the counties previously mentioned. The jointly governed 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 districts. LEECA is organized under Chapter 167 and 3313 of the Ohio Revised Code. LEECA is governed by an assembly that consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and a least one member from each participating county. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Oho Revised Code. The Sheakley Uniservice, Inc's Group Rating Program was established as an insurance purchasing pool.

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

C. Risk Sharing Pool

The Stark County Schools Council of Governments is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts are calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding twelve month period.

Note 7 - Capital Assets

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

	Balance at 6/30/05	*Additions*	*Reductions*	*Balance at 6/30/06*
Governmental Activities:				
Capital Assets, being depreciated:				
Furniture, Fixtures & Equipment	$445,678	$13,819	($5,300)	$454,197
Vehicles	32,673	0	0	32,673
Total Capital Assets, being depreciated	478,351	13,819	(5,300)	486,870
Less Accumulated Depreciation:				
Furniture, Fixtures & Equipment	(362,210)	(10,078)	5,178	(367,110)
Vehicles	(26,850)	(6,535)	0	(33,385)
Total Accumulated Depreciation	(389,060)	(16,613)	5,178	(400,495)
Governmental Activities Capital Assets, Net	$89,291	($2,794)	($122)	$86,375

Depreciation expense was charged to governmental functions as follows:

	Amount
Instruction:	
Adult	$1,607
Support Services:	
Instructional Staff	5,783
Administration	652
Fiscal	100
Business	8,153
Central	318
Total Depreciation Expense	$16,613

Note 8 - 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. The Educational Service Center contracted with Leonard Insurance Company for a Commercial Package Policy starting September 1, 2005 through August 31, 2006. The policy covers all furniture and equipment that has a value equal or greater than $500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.

Professional liability was protected by the Leonard Insurance Company starting September 1, 2005 through August 31, 2006. Coverage is $2,000,000 annual aggregate/$1,000,000 single occurrence limit and no deductible for each claim. An Umbrella increases the annual aggregate by $2,000,000 and each occurrence by $1,000,000. A school leaders error and omissions policy is also provided by Leonard Insurance Company with an aggregate limit of $1,000,000 and a deductible of $2,500. Vehicles were covered by the Leonard Insurance Company as well. The policy holds a $250 deductible for comprehensive and $500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a $1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

Note 8 - Risk Management (continued)

For fiscal year 2006, the Educational Service Center participated in the Sheakley Uniservice, Inc's Compensation Group Rating Program, an insurance purchasing pool (Note 7B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program.

Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Note 9 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. For fiscal year 2006, 11.7% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were $140,904, $118,434, and $105,343, respectively; equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

B. 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

Note 9 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan

allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31^{st} year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.
The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

Note 9 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. 13 percent was the portion used to fund pension obligations. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were $121,308, $115,189, and $113,536, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2006, three of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

Note 10 - Post Employment Benefits

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

Note 10 - Post Employment Benefits (continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $9,331.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 (the latest year available), the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 2.3 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 2006, the minimum pay was established at $35,800. 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the latest year available) were $178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123. The portion of employer contributions used to fund post employment benefits was $159,724.

Note 11 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time up to five days of the prorated share of the current year is paid to all employees upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 240 days.

Note 11 - Employee Benefits (continued)

B. Life Insurance

The Educational Service Center provides $50,000 life insurance and accidental death and dismemberment insurance to most employees through UNUM Life Insurance Co. of America.

Note 12 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2006, are as follows:

	Principal Outstanding July 1,2005	*Additions*	*Deductions*	*Principal Outstanding June 30,2006*	*Due Within One Year*
Compensated Absences	$128,083	$132,431	$128,083	$132,431	$70,644
Total Long-Term Obligations	$128,083	$132,431	$128,083	$132,431	$70,644

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Note 13 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2006.

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Note 14 - Change in Accounting Principles

For the fiscal year 2006, the Center implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Medina County Educational Service Center
124 West Washington Street
Medina, Ohio 44256

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Medina County Educational Service Center (the Educational Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 14, 2007 in which we indicated the District implemented GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47. 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 *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the audit committee, management and members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

December 14, 2007

Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

MEDINA 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
FEBRUARY 12, 2008

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