



**Auditor of State
Betty Montgomery**

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Northwest Ohio Educational Service Center
Henry County
104 E. Washington St. 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, 2005, 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, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Title VI-B funds 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 April 10, 2006, 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 federal award receipts and expenditure schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal award receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole

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

Betty Montgomery
Auditor of State

April 10, 2006

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Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Key highlights for fiscal year 2005 are as follows:

Total net assets increased by \$483,488, or 13 percent, from the prior fiscal year.

During fiscal year 2003, the Educational Service Center purchased an elementary school building. Students gave the building a new name, Independence Education Center (IEC). Over \$312,000 was awarded through a Federal Emergency Repair Program Grant to renovate the building. Now, smaller improvements continue to be done each summer with funds included in the program costs charged to school districts.

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 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 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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.

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

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

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2005 and fiscal year 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$7,404,859	\$6,515,461
Capital Assets, Net	863,425	919,490
Total Assets	8,268,284	7,434,951
<u>Liabilities:</u>		
Current and Other Liabilities	2,980,565	2,710,501
Long-Term Liabilities	1,052,909	973,128
Total Liabilities	4,033,474	3,683,629
<u>Net Assets:</u>		
Invested in Capital Assets	863,425	919,490
Restricted	207,897	158,961
Unrestricted	3,163,488	2,672,871
Total Net Assets	\$4,234,810	\$3,751,322

Total assets increased 11 percent from fiscal year 2004. Much of this increase is due to an increase in cash and cash equivalents, the result of Community Alternative Funding System (CAFS) revenues. CAFS revenues are generally credited against a school district's program costs as settlement reports are received from the State. As no settlement reports were received in fiscal year 2005, accumulated funds will be credited against future program costs.

Total liabilities did not change significantly from the prior fiscal year.

There was a sizable increase in both restricted and unrestricted net assets for fiscal year 2005 as a result of the overall increase in cash and cash equivalents from both restricted and unrestricted sources.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

Table 2
Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$14,208,043	\$13,620,995
Operating Grants and Contributions	7,348,705	5,964,002
Capital Grants, Contributions, and Interest	44	6,388
Total Program Revenues	<u>21,556,792</u>	<u>19,591,385</u>
General Revenues		
Grants and Entitlements	1,085,727	1,109,838
Interest	127,489	57,548
Gifts and Donations	190	15,190
Miscellaneous	9,533	24,336
Total General Revenues	<u>1,222,939</u>	<u>1,206,912</u>
Total Revenues	<u>22,779,731</u>	<u>20,798,297</u>
<u>Expenses:</u>		
Instruction:		
Regular	864,862	874,279
Special	5,875,328	5,853,822
Adult/Continuing	4,426	1,202
Support Services:		
Pupils	4,255,731	4,526,185
Instructional Staff	5,853,671	5,438,728
Board of Education	91,817	85,309
Administration	979,695	884,281
Fiscal	367,814	341,341
Business	28,991	23,466
Operation and Maintenance of Plant	248,934	271,740
Pupil Transportation	136,667	129,895
Central	148,697	119,753
Non-Instructional Services	109,754	36,731
Intergovernmental	3,329,856	2,233,674
Total Expenses	<u>22,296,243</u>	<u>20,820,406</u>
Increase (Decrease) in Net Assets	<u>\$483,488</u>	<u>(\$22,109)</u>

Program revenues were 95 percent of total revenues for fiscal year 2005 (only slightly higher than fiscal year 2004) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 62 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.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

There was only a minimal increase in charges for services revenues for fiscal year 2005. 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.

Operating grants and contributions increased over 23 percent, almost \$1.4 million, mainly due to increases in the funding for the Individual Disabilities Education Act Grant (IDEA-B), the Community Alternative Funding System (CAFS), and the 21st Century Grant.

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 26 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, and preschool disabled children.

Expenses for the services of nurses, school psychologists, speech therapists, attendance officer, social worker, adapted physical education instructors, occupational therapists, physical therapists, and work-study coordinators represented 19 percent of overall expenses and are reflected as pupil staff support services.

Instructional support services were 26 percent of total expenses. These expenses include the costs of supervisors, consultants and coordinators, child information management specialists, paraprofessionals (teacher aides), and a technology director.

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 will continue to increase by 20 percent through fiscal year 2007, at which time the County Commissioners will be charging the Educational Service Center for 100 percent of office space costs.

Intergovernmental expenses include the Individual Disabilities Education Act Grant (IDEA-B), 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.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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	
	2005	2004	2005	2004
Instruction:				
Regular	\$864,862	\$874,279	(\$199,228)	(\$64,985)
Special	5,875,328	5,853,822	(3,700,387)	(3,428,256)
Adult/Continuing	4,426	1,202	286	(2,938)
Support Services:				
Pupils	4,255,731	4,526,185	75,361	573,426
Instructional Staff	5,853,671	5,438,728	2,985,387	2,682,399
Board of Education	91,817	85,309	70,793	80,607
Administration	979,695	884,281	939,851	867,024
Fiscal	367,814	341,341	253,337	252,643
Business	28,991	23,466	28,991	23,466
Operation and Maintenance of Plant	248,934	271,740	184,747	224,641
Pupil Transportation	136,667	129,895	11,739	(30,995)
Central	148,697	119,753	114,686	78,407
Non-Instructional Services	109,754	36,731	72,450	32,608
Intergovernmental	3,329,856	2,233,674	(98,562)	(59,026)
Total Expenses	<u>\$22,296,243</u>	<u>\$20,820,406</u>	<u>\$739,451</u>	<u>\$1,229,021</u>

As noted earlier, program revenues provide for 95 percent of the costs for providing services (up a little from the prior fiscal year). Funding for gifted units and preschool units are provided by the State based on the degree and experience of the staff employed in those positions. These units have been and continue to be funded 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 quite 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.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. For the General Fund, revenues exceeded expenditures providing for a 14 percent increase in fund balance. For the Title VI-B Fund, the fund balance was reduced to \$0 at the end of the fiscal year.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

General Fund Budgeting Highlights

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

During fiscal year 2005, the Educational Service Center amended its General Fund budget as needed. The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year. The Board adopts an annual appropriations resolution, of which final expenditures were budgeted at \$20,114,691 while actual expenditures were \$17,144,533. The Educational Service Center was able to restrict spending below what was anticipated, particularly in the area of pupils support services.

Capital Assets

At June 30, 2005, the Educational Service Center had \$863,425 invested in capital assets (net of accumulated depreciation), a decrease of \$56,065, or 6 percent. The decrease is due to depreciation exceeding current fiscal year additions. For further information regarding the Educational Service Center's capital assets, refer to Note 9 to the basic financial statements.

Current Issues

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.

No significant increases in funding are expected for fiscal year 2006 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.

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 2006.

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 2005, CAFS funds were received but not used as a credit against school districts' program costs; therefore, the General Fund balance increased from these resources held in reserve.

The Educational Service Center has 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.

Northwest Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

CAFS continued to be available through fiscal year 2005 but have ceased to flow to school districts under this program for fiscal year 2006. A replacement Medicaid program is being sought but a gap in funding for a year or more may occur. Centers for Medicare and Medicaid Service (CMS) has not been satisfied with some aspects of the CAFS system in Ohio. There have been ongoing discussions between the Ohio Department of Job and Family Services (ODJFS), the Ohio Department of Mental Retardation and Developmental Disabilities (OMRDD), and Ohio school districts to work through the issues that CMS is looking to resolve. The former two agencies administer and fund the program in Ohio for schools and County Boards of Mental Retardation and Developmental Disabilities.

The termination of CAFS funding began to affect the Educational Service Center in fiscal year 2006. As outstanding years are settled, funds will continue to be credited against program costs for the school districts. Since the Educational Service Center has been conservative in holding funds until settlements are received (except fiscal year 2000 and 2001), the funds received in fiscal year 2002 and after, which are held in reserve, may need to be used to transition to whatever new Medicaid funding system is put into place.

The Educational Service Center's office located in Defiance County will be relocating and will no longer be located in space provided by the County Commissioners. With the increasing cost of space provided by the Defiance County Commissioners and additional space being available at the location of the Defiance County Opportunity Center, combining the office and center at one location became financially feasible.

The Department of Education is moving ahead with plans to consolidate funding for regional initiatives that have been accomplished through various agencies including Educational Service Centers (ESC), Regional Offices for School Improvement (ROSI), Special Education Regional Resource Centers (SERRC), and other entities in the past. The first step to this funding change is a Request for Proposal (RFP) being released in late calendar year 2005 or early 2006. 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 Dorothy K. Pietrykowski, Chief Financial Officer, Northwest Ohio Educational Service Center, 104 East Washington Street, Suite 302, Napoleon, OH 43545-1660.

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Northwest Ohio Educational Service Center
Statement of Net Assets
June 30, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$6,530,540
Accounts Receivable	46,285
Accrued Interest Receivable	8,443
Intergovernmental Receivable	634,937
Prepaid Items	170,701
Materials and Supplies Inventory	13,953
Depreciable Capital Assets, Net	863,425
Total Assets	8,268,284
 <u>Liabilities:</u>	
Accounts Payable	17,411
Accrued Wages and Benefits Payable	2,514,201
Matured Compensated Absences Payable	37,955
Intergovernmental Payable	410,998
Long-Term Liabilities:	
Due Within One Year	87,119
Due in More Than One Year	965,790
Total Liabilities	4,033,474
 <u>Net Assets:</u>	
Invested in Capital Assets	863,425
Restricted For Other Purposes	207,897
Unrestricted	3,163,488
Total Net Assets	\$4,234,810

See Accompanying Notes to Basic Financial Statements

Northwest Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$864,862	\$752,638	\$311,452	\$0
Special	5,875,328	7,757,003	1,818,668	44
Adult/Continuing	4,426	0	4,140	0
Support Services:				
Pupils	4,255,731	3,456,238	724,132	0
Instructional Staff	5,853,671	2,078,745	789,539	0
Board of Education	91,817	21,024	0	0
Administration	979,695	0	39,844	0
Fiscal	367,814	58,161	56,316	0
Business	28,991	0	0	0
Operation and Maintenance of Plant	248,934	41,179	23,008	0
Pupil Transportation	136,667	32,809	92,119	0
Central	148,697	10,246	23,765	0
Non-Instructional Services	109,754	0	37,304	0
Intergovernmental	3,329,856	0	3,428,418	0
Total Governmental Activities	<u>\$22,296,243</u>	<u>\$14,208,043</u>	<u>\$7,348,705</u>	<u>\$44</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs

Interest

Gifts and Donations

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

\$199,228
3,700,387
(286)

(75,361)
(2,985,387)
(70,793)
(939,851)
(253,337)
(28,991)
(184,747)
(11,739)
(114,686)
(72,450)
98,562

(739,451)

1,085,727
127,489
190
9,533

1,222,939

483,488

3,751,322

\$4,234,810

Northwest Ohio Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2005

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$6,430,737	\$99,803	\$6,530,540
Accounts Receivable	46,285	0	46,285
Accrued Interest Receivable	8,443	0	8,443
Intergovernmental Receivable	380,461	254,476	634,937
Interfund Receivable	11,340	0	11,340
Prepaid Items	167,687	3,014	170,701
Materials and Supplies Inventory	13,953	0	13,953
Total Assets	<u>\$7,058,906</u>	<u>\$357,293</u>	<u>\$7,416,199</u>
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$611	\$16,800	\$17,411
Accrued Wages and Benefits Payable	2,423,845	90,356	2,514,201
Matured Compensated Absences Payable	37,955	0	37,955
Intergovernmental Payable	388,769	22,229	410,998
Interfund Payable	0	11,340	11,340
Deferred Revenue	78,777	12,218	90,995
Total Liabilities	<u>2,929,957</u>	<u>152,943</u>	<u>3,082,900</u>
<u>Fund Balances:</u>			
Reserved for Encumbrances	64,251	94,679	158,930
Unreserved, Reported in:			
General Fund	4,064,698	0	4,064,698
Special Revenue Funds	0	109,671	109,671
Total Fund Balances	<u>4,128,949</u>	<u>204,350</u>	<u>4,333,299</u>
Total Liabilities and Fund Balances	<u>\$7,058,906</u>	<u>\$357,293</u>	<u>\$7,416,199</u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances		\$4,333,299
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		863,425
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	39,483	
Accrued Interest Receivable	8,298	
Intergovernmental Receivable	33,433	
Interfund Receivable	9,781	
		90,995
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds:		(1,052,909)
Net Assets of Governmental Activities		\$4,234,810

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Title VI-B	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$3,602,863	\$3,203,228	\$1,659,924	\$8,466,015
Interest	119,191	0	44	119,235
Tuition and Fees	148,149	0	0	148,149
Customer Services	14,011,348	0	0	14,011,348
Gifts and Donations	14,882	0	0	14,882
Miscellaneous	9,432	0	0	9,432
Total Revenues	<u>17,905,865</u>	<u>3,203,228</u>	<u>1,659,968</u>	<u>22,769,061</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	570,795	0	268,660	839,455
Special	5,782,279	0	77,754	5,860,033
Adult/Continuing	0	0	4,426	4,426
Support Services:				
Pupils	3,977,657	0	240,883	4,218,540
Instructional Staff	5,280,104	35,968	559,171	5,875,243
Board of Education	91,817	0	0	91,817
Administration	895,356	0	47,364	942,720
Fiscal	308,797	0	52,696	361,493
Business	28,551	0	0	28,551
Operation and Maintenance of Plant	218,966	0	22,944	241,910
Pupil Transportation	69,672	0	46,116	115,788
Central	72,266	0	76,434	148,700
Non-Instructional Services	0	66,304	43,159	109,463
Capital Outlay	49,962	0	460	50,422
Intergovernmental	0	3,114,174	215,682	3,329,856
Total Expenditures	<u>17,346,222</u>	<u>3,216,446</u>	<u>1,655,749</u>	<u>22,218,417</u>
Excess of Revenues Over (Under) Expenditures	<u>559,643</u>	<u>(13,218)</u>	<u>4,219</u>	<u>550,644</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	0	44,000	44,000
Transfers Out	(44,000)	0	0	(44,000)
Total Other Financing Sources (Uses)	<u>(44,000)</u>	<u>0</u>	<u>44,000</u>	<u>0</u>
Changes in Fund Balances	515,643	(13,218)	48,219	550,644
Fund Balances at Beginning of Year	3,613,306	13,218	156,131	3,782,655
Fund Balances at End of Year	<u>\$4,128,949</u>	<u>\$0</u>	<u>\$204,350</u>	<u>\$4,333,299</u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Changes in Fund Balances - Total Governmental Funds \$550,644

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 depreciation exceeded capital outlays in the current fiscal year:

Capital Outlay	118,676	
Depreciation	(174,636)	
	(55,960)	(55,960)

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. (105)

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

Intergovernmental	(46,275)	
Interest	8,298	
Tuition and Fees	(12,088)	
Customer Services	60,634	
Miscellaneous	101	
	10,670	10,670

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

Intergovernmental Payable	58,020	
Compensated Absences Payable	(79,781)	
	(21,761)	(21,761)

Change in Net Assets of Governmental Activities \$483,488

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$3,521,623	
Interest			117,410	
Tuition and Fees			153,902	
Customer Services			14,137,681	
Gifts and Donations			14,882	
Miscellaneous			7,846	
Total Revenues			<u>17,953,344</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	597,412	696,561	586,824	109,737
Special	6,096,580	6,109,405	5,775,564	333,841
Support Services:				
Pupils	5,190,095	5,727,343	3,904,113	1,823,230
Instructional Staff	5,630,541	5,547,324	5,146,638	400,686
Board of Education	98,995	101,995	92,472	9,523
Administration	983,251	976,772	873,720	103,052
Fiscal	332,485	335,610	304,874	30,736
Business	32,484	84,215	33,013	51,202
Operation and Maintenance of Plant	251,493	291,493	220,969	70,524
Pupil Transportation	53,500	71,093	69,586	1,507
Central	101,368	101,368	80,489	20,879
Capital Outlay	23,585	71,512	56,271	15,241
Total Expenditures	<u>19,391,789</u>	<u>20,114,691</u>	<u>17,144,533</u>	<u>2,970,158</u>
Excess of Revenues Over (Under) Expenditures	<u>(19,391,789)</u>	<u>(20,114,691)</u>	<u>808,811</u>	<u>20,923,502</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures			1,669	1,669
Refund of Prior Year Receipts	(1,000)	(1,000)		1,000
Advances In			920	920
Advances Out	(20,000)	(70,000)	0	70,000
Transfers Out	(30,000)	(70,000)	(44,000)	26,000
Total Other Financing Sources (Uses)	<u>(51,000)</u>	<u>(141,000)</u>	<u>(41,411)</u>	<u>99,589</u>
Changes in Fund Balance	(19,442,789)	(20,255,691)	767,400	21,023,091
Fund Balance at Beginning of Year	5,561,898	5,561,898	5,561,898	0
Prior Year Encumbrances Appropriated	33,252	33,252	33,252	0
Fund Balance at End of Year			<u>\$6,362,550</u>	<u>\$21,023,091</u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center
Statement 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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$3,203,228	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	0	1,557,087	1,557,087	0
Support Services:				
Pupils	22,355	1,557,087	1,557,087	0
Instructional Staff	0	41,105	41,105	0
Non-Instructional Services	0	66,304	66,304	0
Total Expenditures	22,355	3,221,583	3,221,583	0
Changes in Fund Balance	(22,355)	(3,221,583)	(18,355)	3,203,228
Fund Balance at Beginning of Year	16,191	16,191	16,191	0
Prior Year Encumbrances Appropriated	2,164	2,164	2,164	0
Fund Balance at End of Year			\$0	\$3,203,228

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$121,204</u></u>
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Liabilities:

Intergovernmental Payable	<u><u>\$121,204</u></u>
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See Accompanying Notes to the Basic Financial Statements

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 twenty classified employees, and one hundred eighty-eight 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 17 and 18 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.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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.

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 2005. 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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

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

Expenses/Expenditures

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

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

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund, 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 appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

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

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

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$119,191, which includes \$12,728 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.

Note 2 - Summary of Significant Accounting Policies (continued)

G. Prepaid Items

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

H. 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.

I. Capital Assets

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

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

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

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

J. Interfund Assets/Liabilities

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

K. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

L. 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.

M. Net Assets

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

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

N. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

O. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2005, these funds included the Disabilities Education Act, Early Childhood Special Education, and Limited English Proficiency special revenue funds.

P. Interfund Transactions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

R. Estimates

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

Note 3 - Change in Accounting Principles

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

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

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

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 3 - Change in Accounting Principles (continued)

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

Note 4 - Accountability

At June 30, 2005, the Educational Management Information System special revenue fund had a deficit fund balance of \$1,250, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

Changes in Fund Balance

	General Fund	Title VI-B Fund
GAAP Basis	\$515,643	(\$13,218)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2004, Received in Cash FY 2005	414,472	0
Accrued FY 2005, Not Yet Received in Cash	(367,752)	0
		(continued)

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Changes in Fund Balance
(continued)

	General Fund	Title VI-B Fund
Expenditure Accruals:		
Accrued FY 2004, Paid in Cash FY 2005	(\$2,565,419)	(\$5,137)
Accrued FY 2005, Not Yet Paid in Cash	2,851,180	0
Unrecorded Cash Activity 2004	4,064	0
Unrecorded Cash Activity 2005	(1,636)	0
Prepaid Items	(21,165)	0
Materials and Supplies Inventory	3,644	0
Advances In	920	0
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(66,551)	0
Budget Basis	\$767,400	(18,355)

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Note 6 - Deposits and Investments (continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,200,845 of the Educational Service Center's bank balance of \$3,302,104 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent.

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

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - Deposits and Investments (continued)

Investments

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

	Carrying and Fair Value	Maturity
Federal National Mortgage Association Notes	\$247,813	12/23/2005
Federal National Mortgage Association Notes	197,438	4/19/2006
Federal National Mortgage Association Notes	249,533	3/7/2007
Federal National Mortgage Association Notes	250,000	6/29/2007
Federal National Mortgage Association Notes	233,073	9/27/2005
Federal National Mortgage Association Notes	197,900	10/21/2005
Federal National Mortgage Association Notes	196,880	12/9/2005
Federal Home Loan Mortgage Corporation Notes	247,033	4/28/2006
Federal Home Loan Mortgage Corporation Notes	247,893	5/19/2006
Federal Home Loan Mortgage Corporation Notes	247,735	9/22/2006
Federal Home Loan Mortgage Corporation Notes	294,720	12/30/2005
Federal Home Loan Mortgage Corporation Notes	204,792	3/7/2006
Federal Home Loan Mortgage Corporation Notes	192,640	6/27/2006
Federal Home Loan Mortgage Corporation Notes	248,100	9/20/2005
Federal Home Loan Bank Notes	294,322	7/27/2005
Federal Home Loan Bank Bonds	199,750	5/24/2006
Federal Home Loan Bank Bonds	248,673	12/15/2006
STAR Ohio	62,166	30.4 days
Total Investments	<u>\$4,060,461</u>	

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

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

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

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - Deposits and Investments (continued)

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 school district's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal National Mortgage Association	\$1,572,637	38.7%
Federal Home Loan Mortgage Corporation	1,682,913	41.5
Federal Home Loan Bank	742,745	18.3

Note 7 - State Funding

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$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 Education Service Center.

Note 8 - Receivables

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

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 8 - Receivables (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Program Costs	\$260,096
Community Alternative Funding	89,429
Various School Districts	30,687
Miscellaneous	249
Total General Fund	380,461
Other Governmental Funds	
Migrant and OMEC	161,218
Preschool Disabilities	8,146
Miscellaneous Federal Grants	85,112
Total Other Governmental Funds	254,476
Total Intergovernmental Receivables	\$634,937

Note 9 - Capital Assets

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

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Construction in Progress	\$203,904	\$26,300	(\$230,204)	\$0
Depreciable Capital Assets				
Buildings	385,730	254,431	0	640,161
Furniture, Fixtures, and Equipment	996,096	68,149	(22,817)	1,041,428
Vehicles	460,080	0	0	460,080
Total Depreciable Capital Assets	1,841,906	322,580	(22,817)	2,141,669

(continued)

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 9 - Capital Assets (continued)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Less Accumulated Depreciation				
Buildings	(\$87,988)	(\$14,450)	\$0	(\$102,438)
Furniture, Fixtures, and Equipment	(688,941)	(135,580)	22,712	(801,809)
Vehicles	(349,391)	(24,606)	0	(373,997)
Total Accumulated Depreciation	(1,126,320)	(174,636)	22,712	(1,278,244)
Depreciable Capital Assets, Net	715,586	147,944	(105)	863,425
Governmental Activities Capital Assets, Net	\$919,490	\$174,244	(\$230,309)	\$863,425

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$16,759
Special		34,217
Support Services:		
Pupils		25,040
Instructional Staff		11,986
Administration		53,163
Fiscal		3,211
Business		1,674
Operation and Maintenance of Plant		7,013
Pupil Transportation		21,573
Total Depreciation Expense		<u>\$174,636</u>

Note 10 - Interfund Assets/Liabilities

At June 30, 2005, the General Fund had an interfund receivable, in the amount of \$11,340, from other governmental funds for services provided.

Note 11 - Risk Management

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

Coverage provided by Ohio School Plan	
General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Excess Liability	2,000,000
Auto Coverage	
Liability	2,000,000
Uninsured Motorist	1,000,000
Coverage provided by The Netherlands Insurance Company	
Commercial Property	4,211,460

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

The Educational Service Center participates in the 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 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

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

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

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

The Educational Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$1,149,002, \$1,134,065, and \$1,039,754, respectively; 82 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$26,412 made by the Educational Service Center and \$32,290 made by plan members.

Note 12 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$397,329, \$343,177, and \$291,452, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

C. Social Security System

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

Note 13 - Postemployment Benefits

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount was \$90,416.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

Note 13 - Postemployment Benefits (continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$186,259 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is 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.

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.

Northwest Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 15 - Long-Term Obligations

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$973,128	\$90,505	\$10,724	\$1,052,909	\$87,119

Compensated absences will be paid from the General Fund and the Miscellaneous State Grants, Migrant and OMEC, and Miscellaneous Federal Grants special revenue funds.

Note 16 - Interfund Transfers

During fiscal year 2005, the General Fund made transfers to other governmental funds, in the amount of \$44,000, to subsidize operations of other funds.

Note 17 - 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 2005, the Educational Service Center paid \$76,196 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

Note 17 - Jointly Governed Organizations (continued)

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, Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

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, Lois Knuth, who serves as Treasurer, 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.

Note 17 - Jointly Governed Organizations (continued)

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 Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

Note 18 - Insurance Pools

A. Ohio School Plan

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

B. 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 19 - Contingencies

A. Grants

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

B. Litigation

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

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**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30,2005**

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>				
Title I Migrant Education Program	124297-MGS1-05	84.011	\$536,231	\$485,583
	124297-MGS1-04		111,105	176,373
			<u>647,336</u>	<u>661,956</u>
Special Education Cluster:				
Title VI-B Special Education	124297-6BSF-05	84.027	3,180,478	3,180,478
	124297-6BSF-05		18,750	18,750
	124297-6B-SD-04P		4,000	22,355
			<u>3,203,228</u>	<u>3,221,583</u>
Early Childhood Development	124297-PGS1-05	84.173	179,620	168,301
Total Special Education Cluster			<u>3,382,848</u>	<u>3,389,884</u>
Safe and Drug Free Community Service Grant	124297-T4-S1-05P	84.184	3,472	5,406
	124297-T4-S1-04P			3,486
Mentor	124297-T4-S1-04			3,341
			<u>3,472</u>	<u>12,233</u>
Title IV-B 21st Century Community Learning Centers	124297-T1S1-05	84.287	210,396	205,867
Title III Part A Limited English Proficiency	124297-T3S1-05	84.365	41,424	41,425
	124297-T3S1-04		920	
			<u>42,344</u>	<u>41,425</u>
<i>Passed Through Ohio School Facilities Commission</i>				
Federal Emergency Repair Program	FY 2004	84.352		8,263
Total U.S. Department of Education			<u>4,286,396</u>	<u>4,319,628</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Ohio Department of MRDD</i>				
State Health Insurance Program	FY 2005	93.767	27,375	27,375
	FY 2004		34,987	34,987
			<u>62,362</u>	<u>62,362</u>
Community Alternative Funding System	FY 2005	93.778	230,423	230,423
	FY 2004		340,988	340,988
	FY 2003		26	26
	FY 1997		8,729	8,729
			<u>580,166</u>	<u>580,166</u>
Total U.S. Department of Health and Human Services			<u>642,528</u>	<u>642,528</u>
Total			<u>\$4,928,924</u>	<u>\$4,962,156</u>

The accompanying notes are an integral part of this schedule.

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**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Award Receipts and Expenditures Schedule (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.

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**Auditor of State
Betty Montgomery**

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

Northwest Ohio Educational Service Center
Henry County
104 E. Washington St. 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 (the Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

April 10, 2006



**Auditor of State
Betty Montgomery**

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

Northwest Ohio Educational Service Center
Henry County
104 E. Washington St. 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 each of its major federal programs for the year ended June 30, 2005. 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 Northwest Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

April 10, 2006

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
HENRY COUNTY**

**SCHEDULE OF FINDINGS OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Migrant Education Grant CFDA # 84.011 Title XIX- CAFS CFDA # 93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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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
MAY 4, 2006**