



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

To the Service Center Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, the major fund, and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, on our consideration of the 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.

Our audit was performed to form opinions on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The accompanying federal awards receipt and expenditures schedule provides additional information as required by OMB Circular A-133 and is not a required part of the basic financial statements. We subjected this information 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

November 17, 2006

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

The discussion and analysis of Knox County 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, 2006. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2006 are as follows:

- In total, net assets decreased by \$265,264. Total assets decreased by \$225,865 and total liabilities increased by \$39,399.
- Revenues for governmental activities totaled \$4,846,528 in 2006. Of this total, \$415,259 or 8.6 percent consisted of general revenues while program specific revenues from charges for services and grants and contributions accounted \$4,431,269 or 91.4 percent.
- Total revenues increased by \$101,072 or 2.1 percent over fiscal year 2005. This included a \$281,337 increase in program revenues and a \$180,265 decrease in general revenues.
- Program expenses totaled \$5,111,792. Instructional expenses made up 63.6 percent of this total while support services accounted for 36.3 percent. Other expenses rounded out the remaining 0.1 percent.
- Total program expenses increased \$531,837, or 11.6 percent, over fiscal year 2005.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Knox County Educational Service Center as a financial whole, or complete operating entity.

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

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

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

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The Educational Service Center as a Whole

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

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

**Table 1
Net Assets
Governmental Activities**

	<u>2006</u>	<u>2005</u>
Assets		
Current and Other Assets	\$1,651,768	\$1,872,591
Capital Assets, Net	<u>63,490</u>	<u>68,532</u>
<i>Total Assets</i>	<u>1,715,258</u>	<u>1,941,123</u>
Liabilities		
Current Liabilities	391,976	349,159
Long-Term Liabilities:		
Due Within One Year	17,394	18,277
Due in More Than One Year	<u>69,574</u>	<u>72,109</u>
<i>Total Liabilities</i>	<u>478,944</u>	<u>439,545</u>
Net Assets		
Invested in Capital Assets	63,490	68,532
Restricted	54,261	69,147
Unrestricted	<u>1,118,563</u>	<u>1,363,899</u>
<i>Total Net Assets</i>	<u>\$1,236,314</u>	<u>\$1,501,578</u>

Total assets decreased by \$225,865. This decrease was primarily due to a decrease in cash of \$182,148. Total liabilities increased by \$39,399. Long-term liabilities decreased by \$3,418 and current liabilities increased \$42,817.

Table 2 shows revenues, expenses and changes in net assets for fiscal years 2006 and 2005.

Knox County Educational Service Center

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
Changes in Net Assets
Governmental Activities

	2006	2005
Revenues		
Program Revenues:		
Charges for Services	\$3,587,648	\$3,247,343
Operating Grants and Contributions	843,621	902,589
Total Program Revenues	4,431,269	4,149,932
General Revenues:		
Grants and Entitlements	345,107	559,078
Investment Earnings	66,982	27,916
Miscellaneous	3,170	8,530
Total General Revenues	415,259	595,524
Total Revenues	4,846,528	4,745,456
Program Expenses		
Instruction:		
Regular	80,705	98,077
Special	3,168,574	2,742,425
Support Services:		
Pupils	699,630	578,340
Instructional Staff	686,298	724,002
Board of Education	24,190	23,439
Administration	293,262	283,517
Fiscal	107,194	82,650
Operation and Maintenance of Plant	45,678	37,613
Central	2,285	3,205
Extracurricular Activities	3,976	6,687
Total Program Expenses	5,111,792	4,579,955
Increase (Decrease) in Net Assets	(265,264)	165,501
<i>Net Assets Beginning of Year - Restated</i>	1,501,578	1,336,077
<i>Net Assets End of Year</i>	\$1,236,314	\$1,501,578

The vast majority of revenue supporting all governmental activities is program revenue received as grants for special education and charges for services from contracts with local districts. Program revenue totaled \$4,431,269 or 91.4 percent of the total revenue. The remaining amount of revenue received was in the form of general revenues, which equates to \$415,259 or 8.6 percent of total revenue. Program revenues for fiscal year 2006 increased by \$281,337.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Governmental Activities

A review of Table 2 shows the Educational Service Center net assets decreased \$265,264, or approximately 5.5 percent of total revenue for fiscal year 2006. For fiscal year 2005 net assets increased \$165,501, or approximately 3.5 percent of total revenues. While the categories of revenues and expenses are subject to interpretation and reclassification, the bottom line is the same.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by general revenue.

**Table 3
Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Governmental Activities:				
Instruction:				
Regular	\$80,705	(\$18,068)	\$98,077	(\$20,810)
Special	3,168,574	831,013	2,742,425	895,618
Support Services:				
Pupils	699,630	(699,630)	578,340	(568,885)
Instructional Staff	686,298	(324,519)	724,002	(306,599)
Board of Education	24,190	(24,190)	23,439	(23,439)
Administration	293,262	(290,262)	283,517	(280,297)
Fiscal	107,194	(107,194)	82,650	(82,650)
Operation and Maintenance of Plant	45,678	(45,678)	37,613	(37,613)
Central	2,285	(2,285)	3,205	(3,205)
Extracurricular Activities	3,976	290	6,687	(2,143)
Total	\$5,111,792	(\$680,523)	\$4,579,955	(\$430,023)

The Educational Service Center's Funds

Information regarding the School District's governmental funds can be found on pages 12 - 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,847,046 and expenditures of \$5,110,168.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund.

For the General fund, final budget basis appropriations totaled \$6,289,594 compared to the original estimate of \$5,422,786. This difference was primarily due to increases in special education, pupil support services and instructional staff support costs.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

The general fund's unencumbered ending cash balance totaled \$1,528,489 which was less than the beginning unencumbered cash balance of \$1,701,946. The Educational Service Center's actual expenditures were well below the amount that was appropriated.

Capital Assets

At the end of fiscal year 2006, the Educational Service Center had \$63,490 invested in furniture, fixtures and equipment. Table 4 shows fiscal 2006 values compared to 2005. More detailed information is presented in Note 9 to the basic financial statements.

Table 4
Capital Assets at June 30
Governmental Activities

	2006	2005
Furniture, Fixtures and Equipment	<u>\$63,490</u>	<u>\$68,532</u>

All capital assets are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year. The Educational Service Center purchased equipment totaling \$13,256 during the year which was offset by current depreciation expense of \$17,117 and net deletions of \$1,181.

Current Related Financial Activities

The Knox County Educational Service Center is financially stable at the present time. The Governing Board and administration closely monitor revenues and expenditures in accordance with board policy.

The Board and administration of the Knox County Educational Service Center continue to rely on different sources of revenue in addition to the financial resources of the State foundation program. With the implementation of the ERSS system mandated in HB115, it is most likely that the Knox County ESC will not continue as the fiscal agent for the North Central Ohio Special Education Resource Center. Cost to administer these funds have been taken from the SERRC grant and in the absence of these available funds, it will mean that personnel costs will continue without this minor source of revenue. In addition there is still no solution to the absence of CAFS funding for schools, which in the past, has provided significant revenue to the Knox County ESC. Schools are having to absorb these non-reimbursed costs.

The Knox County Educational Service Center relies heavily on not only contracts with local school districts and State foundation revenue, but other grants and other revenue it is able to generate. The fact that Education Service Centers are not fully funded by the state, makes it imperative that the Knox County Education Service Center look for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Service Center is also committed to assisting local districts to secure resources that will reinforce the instructional program within the districts.

Irrespective of the instability of the funding in the State of Ohio, and the uncertainty of how educational service centers deliver services on a regional basis, the Knox County Educational Service Center is committed to providing the best services possible and to be fiscally responsible in its operation. The challenge that faces the Knox County Educational Service Center operation is not in providing quality services, but in the uncertainty of how the Educational Service Center will deliver services and what those services should be.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

The Educational Service Center has an efficient system of budgetary processes and controls. Internal department budgets build in additional administrative accountability in administering the budget.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Patricia Lyons, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050, or email at Lyons_p@treca.org.

Knox County Educational Service Center

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,599,391
Accounts Receivable	330
Intergovernmental Receivable	52,047
Depreciable Capital Assets, Net	<u>63,490</u>
<i>Total Assets</i>	<u>1,715,258</u>
Liabilities	
Accounts Payable	519
Accrued Wages Payable	305,590
Matured Compensated Absences Payable	1,767
Intergovernmental Payable	84,100
Long-Term Liabilities:	
Due Within One Year	17,394
Due In More Than One Year	<u>69,574</u>
<i>Total Liabilities</i>	<u>478,944</u>
Net Assets	
Invested in Capital Assets	63,490
Restricted for:	
Student Activities	4,955
Staff Development	45,168
SchoolNet	2,360
Preschool for the Handicapped	1,658
Alternative Schools	120
Unrestricted	<u>1,118,563</u>
<i>Total Net Assets</i>	<u><u>\$1,236,314</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$80,705	\$0	\$62,637	(\$18,068)
Special	3,168,574	3,372,851	626,736	831,013
Support Services:				
Pupils	699,630	0	0	(699,630)
Instructional Staff	686,298	210,531	151,248	(324,519)
Board of Education	24,190	0	0	(24,190)
Administration	293,262	0	3,000	(290,262)
Fiscal	107,194	0	0	(107,194)
Operation and Maintenance of Plant	45,678	0	0	(45,678)
Central	2,285	0	0	(2,285)
Extracurricular Activities	3,976	4,266	0	290
<i>Totals</i>	<u>\$5,111,792</u>	<u>\$3,587,648</u>	<u>\$843,621</u>	<u>(680,523)</u>
		General Revenues		
		Grants and Entitlements not Restricted to Specific Programs		345,107
		Investment Earnings		66,982
		Miscellaneous		3,170
		<i>Total General Revenues</i>		<u>415,259</u>
		Change in Net Assets		(265,264)
		<i>Net Assets Beginning of Year - Restated</i>		<u>1,501,578</u>
		<i>Net Assets End of Year</i>		<u><u>\$1,236,314</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,529,295	\$70,096	\$1,599,391
Accounts Receivable	330	0	330
Interfund Receivable	4,116	0	4,116
Intergovernmental Receivable	42,836	9,211	52,047
<i>Total Assets</i>	<u>\$1,576,577</u>	<u>\$79,307</u>	<u>\$1,655,884</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$519	\$0	\$519
Accrued Wages Payable	287,864	17,726	305,590
Matured Compensated Absences	1,767	0	1,767
Interfund Payable	0	4,116	4,116
Intergovernmental Payable	80,711	3,389	84,100
Deferred Revenue	125	3,747	3,872
<i>Total Liabilities</i>	<u>370,986</u>	<u>28,978</u>	<u>399,964</u>
 Fund Balances			
Reserved for Encumbrances	481	3,973	4,454
Unreserved, Undesignated			
Reported in:			
General Fund	1,205,110	0	1,205,110
Special Revenue Funds	0	46,356	46,356
<i>Total Fund Balances</i>	<u>1,205,591</u>	<u>50,329</u>	<u>1,255,920</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,576,577</u>	<u>\$79,307</u>	<u>\$1,655,884</u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Funds Balances	\$1,255,920
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	63,490
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. These deferrals are attributed to accounts and intergovernmental receivables.	
Customer Services	125
Intergovernmental	3,747
Total	3,872
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(86,968)
<i>Net Assets of Governmental Activities</i>	\$1,236,314

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$890,444	\$257,238	\$1,147,682
Interest	66,982	0	66,982
Tuition and Fees	235,505	0	235,505
Extracurricular Activities	0	4,266	4,266
Contributions and Donations	1,250	39,796	41,046
Customer Services	3,348,395	0	3,348,395
Miscellaneous	3,170	0	3,170
<i>Total Revenues</i>	<u>4,545,746</u>	<u>301,300</u>	<u>4,847,046</u>
Expenditures			
Current:			
Instruction:			
Regular	16,609	62,100	78,709
Special	3,084,658	85,499	3,170,157
Support Services:			
Pupils	703,084	0	703,084
Instructional Staff	533,499	158,071	691,570
Board of Education	24,190	0	24,190
Administration	284,367	3,006	287,373
Fiscal	103,146	0	103,146
Operation and Maintenance of Plant	45,678	0	45,678
Central	2,285	0	2,285
Extracurricular Activities	0	3,976	3,976
<i>Total Expenditures</i>	<u>4,797,516</u>	<u>312,652</u>	<u>5,110,168</u>
<i>Net Change in Fund Balances</i>	<u>(251,770)</u>	<u>(11,352)</u>	<u>(263,122)</u>
<i>Fund Balances Beginning of Year - Restated</i>	<u>1,457,361</u>	<u>61,681</u>	<u>1,519,042</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,205,591</u></u>	<u><u>\$50,329</u></u>	<u><u>\$1,255,920</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$263,122)

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	13,256
Depreciation	<u>(17,117)</u>

Total	(3,861)
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the net book value of the deleted capital assets.

(1,181)

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

Customer Services	(518)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	<u>3,418</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$265,264)</u></u>
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See accompanying notes to the basic financial statements

Knox County 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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$890,444	
Interest			66,982	
Tuition and Fees			237,910	
Contributions and Donations			1,250	
Customer Services			3,384,170	
Miscellaneous			3,165	
<i>Total Revenues</i>			4,583,921	
Expenditures				
Current:				
Instruction:				
Regular	63,423	63,423	16,639	46,784
Special	3,372,535	3,845,047	3,049,570	795,477
Support Services:				
Pupils	721,193	834,686	688,863	145,823
Instructional Staff	600,653	859,676	541,694	317,982
Board of Education	54,850	54,850	24,190	30,660
Administration	368,414	369,679	284,297	85,382
Fiscal	103,850	124,165	103,054	21,111
Operation and Maintenance of Plant	133,868	134,068	45,726	88,342
Pupil Transportation	1,000	1,000	0	1,000
Central	3,000	3,000	2,960	40
<i>Total Expenditures</i>	5,422,786	6,289,594	4,756,993	1,532,601
<i>Excess of Revenues Over (Under) Expenditures</i>	(5,422,786)	(6,289,594)	(173,072)	1,532,601
Other Financing Sources (Uses)				
Advances Out	0	0	(4,116)	(4,116)
<i>Net Change in Fund Balance</i>			(177,188)	
<i>Fund Balance Beginning of Year</i>			1,701,946	
Prior Year Encumbrances Appropriated			3,731	
<i>Fund Balance End of Year</i>			\$1,528,489	

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Wolfe Estate	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,955	<u>\$290,540</u>
Liabilities		
Undistributed Monies	<u>0</u>	<u>\$290,540</u>
Net Assets		
Held in Trust for Scholarships	<u>\$11,955</u>	

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2006

	<u>Wolfe Estate</u>
Additions	
Interest	\$470
Deductions	
	<u>0</u>
<i>Change in Net Assets</i>	470
<i>Net Assets Beginning of Year</i>	<u>11,485</u>
<i>Net Assets End of Year</i>	<u><u>\$11,955</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 1 - Description of the Educational Service Center and Reporting Entity

On July 18, 1914, the Knox County Educational Service Center ("Educational Service Center") was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to area school districts.

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and federal agencies. The Board controls the Educational Service Center's support facilities staffed by 128 non-certificated and 44 certificated teaching personnel, and 18 administrators who provide services to 8,525 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

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

The Educational Service Center participates in three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 11 and 12 to the basic financial statements. These organizations are the Knox County Career Center, Tri-Rivers Educational Computer Association, North Central Ohio Special Education Regional Resource Center and the Ohio School Boards Association Workers' Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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. The more significant of the Educational Service Center's accounting policies are described below.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

A. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental 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. The funds of the Educational Service Center are divided into two categories: governmental and fiduciary.

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

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

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private-purpose trust fund established to account for funds from an estate with the interest specifically designated to be used for college scholarships. 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 resources for the North Central Ohio Special Education Regional Resource Center.

C. Measurement Focus

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the 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 Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

Investments are reported at fair value, which is based on quoted market prices.

During fiscal year 2006, the Educational Service Center invested in STAROhio, an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$66,982, which includes \$2,936 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.

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

F. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	6 - 10 years

G. 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 employer will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

H. Accrued Liabilities and Long-term Obligations

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

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

I. 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.

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

J. Fund Balance Reserves

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$54,261 of restricted net assets, of which none is restricted by enabling legislation.

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

L. Extraordinary and Special Items

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

M. 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.

N. Budgetary Data

The budgetary process that is followed by the Educational Service Center is for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. During the year, several supplemental appropriations were enacted; the most significant being an increase of \$866,808 in the General Fund, which represented the appropriation of available resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 3 – Accounting Change/Change in Accounting Principles

Certain transactions in 2005 were inadvertently posted to a nonmajor special revenue fund rather than an agency fund. As a result, Equity in Pooled Cash and Cash Equivalents and Unreserved, Undesignated Fund Balance Reported in Special Revenue Funds (Net Assets Restricted for Staff Development for the entity-wide statement) were overstated by \$7,417, while Equity in Pooled Cash and Cash Equivalents and Undistributed Monies were understated by \$7,417 in the agency fund.

For fiscal year 2006, the Educational Service Center has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” GASB Statement No.42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the Educational Service Center.

Note 4 – Accountability and Legal Compliance

A. Fund Deficits

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

Special Revenue Funds:	
EMIS	\$19
Daycare	485
Entry Year Programs	9
Technology Equity	38
Other Federal Grants	3,747

The special revenue fund deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not 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 balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

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).

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$251,770)
Net Adjustment for Revenue Accruals	38,175
Net Adjustment for Expenditure Accruals	41,328
Encumbrances	(805)
Advance Out	(4,116)
Budget Basis	<u>(\$177,188)</u>

Note 6 - Deposits and Investments

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

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

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

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

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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, \$417,285 of the Educational Service Center's bank balance of \$517,285 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial credit risk 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 repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2006, the Educational Service Center only had an investment in STAROhio, the State Treasurer's Investment Pool. This investment had a carrying and fair value of \$1,727,841 and an average maturity of 35 days. The investment is in an internal investment pool.

Interest Rate Risk The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that would further limit its investment choices.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Concentration of Credit Risk The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's investment in STAROhio represents 100 percent of the Educational Service Center's total investments.

Note 7 - Receivables

Receivables at June 30, 2006, consisted of tuition and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Customer Services	\$42,836
Preschool	5,464
Federal Grants	3,747
<i>Total Governmental Activities</i>	<u><u>\$52,047</u></u>

Note 8 - State Funding

The Education 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 Education Service Center's local and client school districts based on each school's total student count. The 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 local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school district an amount equal to \$19 times the school district's total student count and remits this amount to the Education Service Center.

The Education Service Center may contract with city, exempted village, local, 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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 9 – Capital Assets

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

	<u>Balance</u> 7/1/05	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 6/30/06
Governmental Activities				
Capital Assets, being Depreciated Furniture, Fixtures and Equipment	\$134,974	\$13,256	(\$4,497)	\$143,733
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(66,442)</u>	<u>(17,117) *</u>	<u>3,316</u>	<u>(80,243)</u>
Governmental Activities Capital Assets, Net	<u>\$68,532</u>	<u>(\$3,861)</u>	<u>(\$1,181)</u>	<u>\$63,490</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,966
Special	4,401
Support Services:	
Instructional Staff	5,105
Administration	5,325
Fiscal	320
Total Depreciation Expense	<u>\$17,117</u>

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 10 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2006 were as follows:

	Amount			Amount	Amounts
	Outstanding	Additions	Deletions	Outstanding	Due in
	7/1/05			6/30/06	One Year
Governmental Activities					
Compensated Absences	\$90,386	\$8,299	\$11,717	\$86,968	\$17,394

Compensated absences will be paid from the general fund and public school preschool, alternative center and preschool special revenue funds.

Note 11 - Jointly Governed Organizations

Knox County Career Center The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 2006. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

Tri-Rivers Educational Computer Association The Tri-Rivers Educational Computer Association (TRECA) is jointly governed organization among 36 member districts. TRECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the members' districts. The degree of control exercised by any participating school district is limited to its representation on the board. The Knox County Educational Service Center paid \$1,531 training services during fiscal year 2006. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

North Central Ohio Special Education Regional Resource Center North Central Ohio Special Education Regional Resource Center (NCO/SERRC)-NCO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NCO/SERRC is governed by a governing board of 51 members made up of representatives from 42 superintendents of the participating districts, 4 superintendents from career centers, one representative from area colleges and university branches, one representative of the County 169 programs, and three parents of children with disabilities. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Knox County Educational Service Center, Martinsburg Road, Mount Vernon, Ohio 43050.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 12 - Insurance Purchasing Pool

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

Note 13 - 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 2006, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2006, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 14 - Pension Plans

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$158,227, \$150,727 and \$108,868 respectively; 90.26 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006 plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$329,602, \$302,249, and \$266, 695 respectively; 91.23 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$186 made by the Educational Service Center and \$15,834 made by the plan members.

Note 15 - 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 non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$25,354 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$51,147.

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 the annual health care expenses less contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 16 - Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180-day employees and 200 days for 260-day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 45 days. Any employee receiving such payment must meet the requirement provisions set by STRS or SERS.

Life Insurance is provided through Medical Life Insurance Company. The Governing Board pays 100 percent of the premium. Coverage is \$40,000 life and an additional \$40,000 Accidental Death, Dismemberment, and Loss of Sight.

Health insurance is provided through United Health Care. Employees pay \$40 and \$90 monthly for single and family coverage, respectively. Yearly deductible for individuals is \$100 and yearly family deductible is \$300.

Note 17 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

B. Litigation

The Educational Service Center is not a party to legal proceedings.

Note 18 – Interfund Balances

The balances for advances to/from other funds at June 30, 2006, consisted of the following individual fund receivables and payables.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$4,116	\$0
Preschool	0	369
Miscellaneous Federal Grants	<u>0</u>	<u>3,747</u>
Totals	<u><u>\$4,116</u></u>	<u><u>\$4,116</u></u>

Interfund payables in the preschool and miscellaneous federal grants special revenue funds are due to the timing of the receipt of grant monies received by the various funds. Both are expected to be paid within one year.

**EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education: Grants to States	84.027	6B-AA-05	\$7,500	\$10,889
Title VI-B		6B-EC-05	113,263	84,348
		6B-SI-04	286,670	333,670
		6B-SI-05	765,865	666,533
		6B-ST-05	105,051	139,329
Total Special Education: Grants to States			<u>1,278,349</u>	<u>1,234,769</u>
Special Education: Pre-School Grants	84.173	PG-S1-05	1,559	1,548
		PG-S1-06	33,294	33,663
Total Special Education: Pre-School Grants			<u>34,853</u>	<u>35,211</u>
Total Special Education Cluster			1,313,202	1,269,980
Safe and Drug Free Schools Grants	84.184c	T4-S1-04	1,338	5,894
Special Education State - Personnel Development	84.323	ST-S2-05	276,803	249,801
Total U.S. Department of Education			1,591,343	1,525,675
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America- School & Community Based Programs	94.004	SV-S1-05	2,549	0
		SV-S1-06	15,000	15,000
Total Learn and Service America Grants			<u>17,549</u>	<u>15,000</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities</i>				
State Children's Health Insurance Program	93.767	N/A	603	603
Community Alternative Funding System	93.778	N/A	8,010	8,010
Total Ohio Department of MR/DD			<u>8,613</u>	<u>8,613</u>
Total Federal Awards			<u><u>\$1,617,505</u></u>	<u><u>\$1,549,288</u></u>

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

**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying of Federal Awards Receipts and Expenditures Schedule (schedule) is a summary of activity of the 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 Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.

NOTE C – SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)

The Schedule includes amounts received and spent by the SERRC. SERRC is a separate entity from the Center and has its own governing body. The Center's responsibility for funding is limited to depositing and disbursing federal monies as directed by the SERRC. SERRC is responsible for compliance with federal requirements, but the federal monies are included within the scope of the Center.



**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**

Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

To the Service Center Board:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 17, 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 Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the 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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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, the Service Center Board and 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

November 17, 2006



Auditor of State Betty Montgomery

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

Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

To the Service Center Board:

Compliance

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2006-01.

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Internal Control Over Compliance

The 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 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, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 17, 2006

EDUCATIONAL SERVICE CENTER
KNOX COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006

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?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.027 & 84.173 Cluster – Special Education Grants To States and Special Education Preschool Grant
<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

**EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2006-01
CFDA Title and Number	Special Education Cluster: Special Education Grants to States, CFDA # 84.027; Special Education Preschool Grant, CFDA # 84.173
Federal Award Number / Year	6B-SI FYE 06/30/2005
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

Non-Compliance Finding – Questioned Cost

Federal Questioned Cost - Special Education Cluster – CFDA #84.027 & 84.173

34 CFR 80.23(a) states in part, that when a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted by the granting agency.

The Knox County Educational Service Center (ESC) is the fiscal agent for the North Central Ohio Special Education Regional Resource Center (SERRC). During the audit period \$41,418 in federal monies (3.2% of the special education cluster grant expenditures) were paid from the SERRC 2005 grant fund (Title VI-B: 516-9005) into a separate non-federal fund (Contracted Tech Services: 019-9905) on the ESC’s accounting records. The payments were for rent payments for SERRC and for mini-grants for local school districts serviced by SERRC. The funding period ended for the 2005 grant on June 30, 2005 and the period of availability ended for the grant on September 30, 2005.

Furthermore, a copier was purchased by SERRC after the funding period in the amount of \$14,586.

Total questioned costs for funds not obligated by June 30, 2005 are \$56,004. We recommend the SERRC use grant funds only for obligations made during the funding period. Any balances not obligated by the end of each grant funding period, should be returned to the Ohio Department of Education unless an appropriate grant period extension is obtained.

Officials’ Response:

It should be noted that the mini-grant program at the SERRC Center was established for the first time in 2005-2006 and the Director felt that the Knox County Educational Service Center should administer the grants. The SERRC Director authorized the money for the grant to be transferred to the Knox County Educational Service Center and thought that this was a legal expenditure. Since the program was established seemingly outside the grant deadline period, future grant programs, if continued, will be funded within the current fiscal year grant period.

EDUCATIONAL SERVICE CENTER
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	A portion of the Treasurer's salary was paid from a fund other than the General Fund. This was a violation of allowable cost principles.	Yes	



**Auditor of State
Betty Montgomery**

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EDUCATIONAL SERVICE CENTER

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 4, 2007**