

**EDUCATIONAL SERVICE CENTER
OF FRANKLIN COUNTY**

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2006*

MARJORIE FENTON, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Franklin County Educational Service Center
2080 Citygate Drive
Columbus, Ohio 43219

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 26, 2007

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EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County, Franklin County, Ohio (the "Center") as of and for the fiscal 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County, Franklin County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General fund and Title VI-B major special revenue fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report
Educational Service Center of Franklin County

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2007, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
January 4, 2007

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$3,182,974 which represents a 29.91% increase from 2005.
- General revenues accounted for \$4,220,637 in revenue or 11.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$32,930,617 or 88.64% of total revenues of \$37,151,254.
- The Center had \$33,968,280 in expenses related to governmental activities; \$32,930,617 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$4,220,637 were adequate to provide for these programs.
- The Center's major governmental funds include the general fund and Title VI-B fund. The general fund had \$27,035,708 in revenues and \$24,799,524 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance increased \$2,236,184 from \$5,276,376 to \$7,512,560.
- The other of the Center's major governmental funds is the Title VI-B fund. The Title VI-B fund had \$5,430,677 in revenues and other financing sources and \$5,565,969 in expenditures. During fiscal 2006, its fund balance decreased \$135,292 from a fund balance of \$614,250 to \$478,958.

Using these Basic Financial Statements (BFS)

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

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Funds

The District maintains only one type of proprietary fund. The internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District has two internal service funds that account for a self-insurance program which provides health and dental benefits to employees and the Leadership Academy program. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

Reporting the Center's Fiduciary Responsibilities

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-46 of this report.

The Center as a Whole

The Statement of Net Assets provides the perspective of the Center as a whole.

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

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 16,889,212	\$ 13,671,342
Capital assets	<u>1,511,448</u>	<u>1,190,429</u>
Total assets	<u>18,400,660</u>	<u>14,861,771</u>
<u>Liabilities</u>		
Current liabilities	3,645,981	3,401,859
Long-term liabilities	<u>931,280</u>	<u>819,487</u>
Total liabilities	<u>4,577,261</u>	<u>4,221,346</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,511,488	1,190,429
Restricted	4,365,463	4,247,552
Unrestricted	<u>7,946,448</u>	<u>5,202,444</u>
Total net assets	<u>\$ 13,823,399</u>	<u>\$ 10,640,425</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's assets exceeded liabilities by \$13,823,399. Of this total, \$7,946,448 is unrestricted in use.

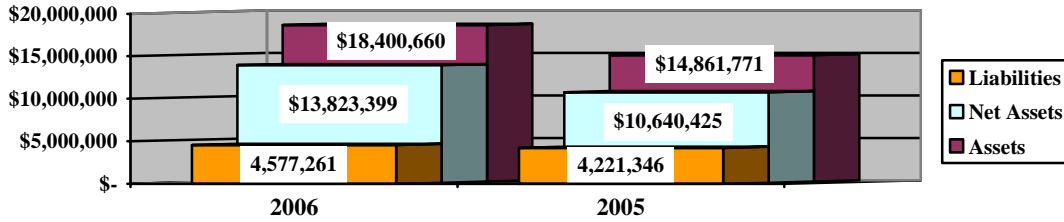
At year-end, capital assets represented 8.21% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets at June 30, 2006, were \$1,511,488. These capital assets are used to provide the Center's services and are not available for future spending.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

A portion of the Center's net assets, \$4,365,463, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$7,946,448 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 23,070,347	\$ 19,216,238
Operating grants and contributions	9,860,270	9,134,973
General revenues:		
Grants and entitlements	3,807,185	3,840,245
Investment earnings	363,343	180,224
Other	50,109	33,635
Total revenues	<u>\$ 37,151,254</u>	<u>\$ 32,405,315</u>

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Special	\$ 10,529,221	\$ 9,963,761
Vocational	174,766	-
Other	-	7,301
Support services:		
Pupil	424,003	619,423
Instructional staff	11,979,926	10,949,790
Board of education	100,711	133,928
Administration	7,123,037	6,275,691
Fiscal	764,116	755,492
Business	199,542	191,294
Operations and maintenance	2,019,276	613,495
Pupil transportation	105,814	23,682
Central	445,795	369,297
Operations of non-instructional services	102,073	130,495
Extracurricular activities	<u>-</u>	<u>22</u>
Total expenses	<u>33,968,280</u>	<u>30,033,671</u>
Change in net assets	3,182,974	2,371,644
Net assets at beginning of year	<u>10,640,425</u>	<u>8,268,781</u>
Net assets at end of year	<u>\$ 13,823,399</u>	<u>\$ 10,640,425</u>

Governmental Activities

Net assets of the Center's governmental activities increased \$3,182,974. Total governmental expenses of \$33,968,280 were offset by program revenues of \$32,930,617 and general revenues of \$4,220,637. Program revenues supported 96.95% of the total governmental expenses.

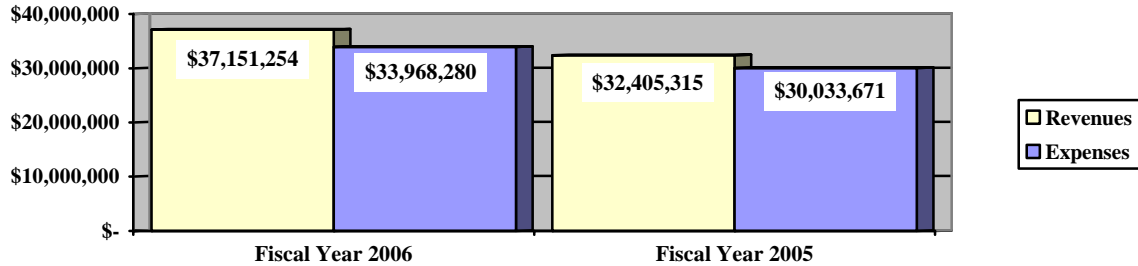
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 62.10% of total governmental revenue.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2006 and 2005

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Special	\$ 10,529,221	\$ (245,740)	\$ 9,963,761	\$ 287,345
Vocational	174,766	174,694	-	-
Other	-	-	7,301	(159)
Support services:				
Pupil	424,003	321,029	619,423	(252,679)
Instructional staff	11,979,926	(2,449,156)	10,949,790	325,700
Board of education	100,711	100,711	133,928	133,928
Administration	7,123,037	666,301	6,275,691	240,078
Fiscal	764,116	514,259	755,492	531,180
Business	199,542	(225,447)	191,294	47,500
Operations and maintenance	2,019,276	1,719,516	613,495	232,677
Pupil transportation	105,814	105,814	23,682	23,682
Central	445,795	386,871	369,297	234,161
Operations of non-instructional services	102,073	(31,189)	130,495	(120,975)
Extracurricular activities	-	-	22	22
Total expenses	<u>\$ 33,968,280</u>	<u>\$ 1,037,663</u>	<u>\$ 30,033,671</u>	<u>\$ 1,682,460</u>

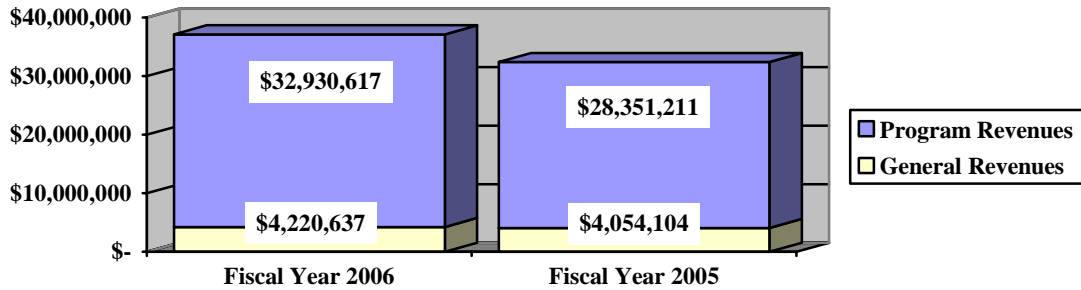
For all governmental activities, program revenue support is 96.95% at June 30, 2006 and 94.40% at June 30, 2005. The primary support of the Center is contracted fees for services provided to other districts.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$9,501,868, which is higher than last year's total of \$8,621,721. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	<u>Increase</u>
General	\$ 7,512,560	\$ 5,276,376	\$ 2,236,184
Title VI-B	478,958	614,250	(135,292)
Other Governmental	<u>1,510,350</u>	<u>2,731,095</u>	<u>(1,220,745)</u>
Total	<u>\$ 9,501,868</u>	<u>\$ 8,621,721</u>	<u>\$ 880,147</u>

General Fund

The Center's general fund balance increased in fiscal 2006 \$2,236,184. The increase in fund balance can be attributed to an increase in tuition and customer services revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 11,173,288	\$ 8,895,514	25.61 %
Customer services	11,646,279	9,758,684	19.34 %
Earnings on investments	363,343	180,224	101.61 %
Intergovernmental	3,807,185	3,840,245	(0.86) %
Other revenues	<u>45,613</u>	<u>21,700</u>	110.20 %
Total	<u>\$ 27,035,708</u>	<u>\$ 22,696,367</u>	19.12 %
<u>Expenditures</u>			
Instruction	\$ 9,643,004	\$ 9,159,057	5.28 %
Support services	<u>15,128,420</u>	<u>12,820,813</u>	18.00 %
Total	<u>\$ 24,771,424</u>	<u>\$ 21,979,870</u>	12.70 %

Tuition and customer services revenues and support services expenditures in the general fund increased due to additional autism and cross-categorical programs provided to the local and city school districts the Center serves.

Title VI-B Fund

During fiscal 2006, the Title VI-B fund balance decreased \$135,292. The decrease in fund balance can be attributed to a decrease of intergovernmental revenue received during the available period and decrease in deferred revenue. Revenues and other financing sources totaled \$5,340,677 and expenditures totaled \$5,565,969 during fiscal 2006.

General Fund Budgeting Highlights

The 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 budgeted fund is the general fund.

For the general fund, original budgeted revenues and other financing sources of \$20,690,912 were increased to \$37,478,023 in the final budget. Actual revenues and other financing sources for fiscal 2006 were \$26,565,333. This represents a \$10,912,690 decrease from the final budgeted revenues and other financing sources, which is primarily attributed to less tuition and customer services revenue the Center actually received by fiscal year end.

General fund original budgeted expenditures and other financing uses of \$22,059,870 were increased to \$27,060,344 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$25,907,631, which was \$1,152,713 lower than the final budget appropriations.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

Capital Assets

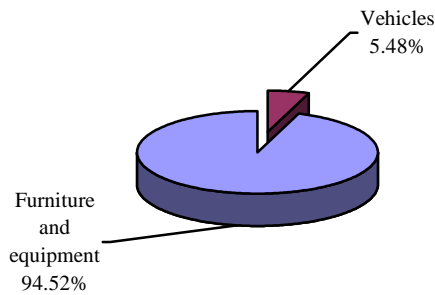
At the end of fiscal 2006, the Center had \$1,511,488 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 1,428,644	\$ 1,117,261
Vehicles	<u>82,844</u>	<u>73,168</u>
Total	<u>\$ 1,511,488</u>	<u>\$ 1,190,429</u>

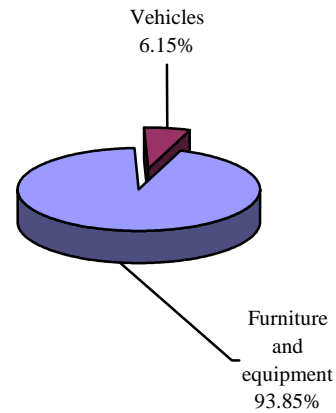
Total additions to capital assets for 2006 were \$674,972. A total of \$327,105 in depreciation expense was recognized and disposals were \$26,808 (net or accumulated depreciation) for fiscal 2006.

The graphs below present the Center's capital assets for fiscal 2006 and fiscal 2005.

**Capital Assets - Governmental Activities
2006**



**Capital Assets - Governmental Activities
2005**



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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2006. The Governing Board has a Permanent Improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Educational Regional Service System will have an impact on educational service centers in the future. At this time it is impossible to determine what effect this legislation will have on the Educational Service Center of Franklin County.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Marjorie Fenton, Treasurer, Educational Service Center of Franklin County 2080 Citygate Dr., Columbus, Ohio 43219.

**BASIC
FINANCIAL STATEMENTS**

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 9,640,962
Receivables:	
Accounts	33,982
Intergovernmental	7,036,927
Accrued interest	19,344
Prepayments	4,519
Loans	153,438
Capital assets:	
Depreciable capital assets, net	1,511,488
Capital assets, net.	1,511,488
 Total assets.	 18,400,660
 Liabilities:	
Accounts payable.	291,387
Accrued wages and benefits	2,393,296
Intergovernmental payable	567,799
Claims payable	393,499
Long-term liabilities:	
Due within one year.	359,041
Due in more than one year	572,239
	572,239
 Total liabilities	 4,577,261
 Net Assets:	
Invested in capital assets, net of related debt.	1,511,488
Restricted for:	
Capital projects	716,203
Locally funded programs	29,330
State funded programs	259,226
Federally funded programs	3,357,363
Student activities	320
Public school support.	3,021
Unrestricted.	7,946,448
	7,946,448
 Total net assets	 \$ 13,823,399

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Special	\$ 10,529,221	\$ 9,168,502	\$ 1,606,459	\$ 245,740
Vocational	174,766	-	72	(174,694)
Support services:				
Pupil	424,003	-	102,974	(321,029)
Instructional staff	11,979,926	13,254,358	1,174,724	2,449,156
Board of education	100,711	-	-	(100,711)
Administration	7,123,037	222,498	6,234,238	(666,301)
Fiscal	764,116	-	249,857	(514,259)
Business	199,542	424,989	-	225,447
Operations and maintenance	2,019,276	-	299,760	(1,719,516)
Pupil transportation	105,814	-	-	(105,814)
Central	445,795	-	58,924	(386,871)
Operation of non-instructional services	102,073	-	133,262	31,189
Total governmental activities	<u>\$ 33,968,280</u>	<u>\$ 23,070,347</u>	<u>\$ 9,860,270</u>	<u>(1,037,663)</u>
General Revenues:				
Grants and entitlements not restricted to specific programs				3,807,185
Investment earnings				363,343
Miscellaneous				50,109
Total general revenues				<u>4,220,637</u>
Change in net assets				3,182,974
Net assets at beginning of year				<u>10,640,425</u>
Net assets at end of year				<u>\$ 13,823,399</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 7,673,676	\$ 10,391	\$ 1,330,156	\$ 9,014,223
Receivables:				
Accounts	12,321	-	219	12,540
Intergovernmental	2,762,956	2,742,903	1,531,068	7,036,927
Accrued interest	19,344	-	-	19,344
Interfund loans	560,912	-	-	560,912
Prepayments.	3,501	1,018	-	4,519
Loans	153,438	-	-	153,438
 Total assets	 \$ 11,186,148	 \$ 2,754,312	 \$ 2,861,443	 \$ 16,801,903
Liabilities:				
Accounts payable	\$ 109,602	\$ 123,466	\$ 58,319	\$ 291,387
Accrued wages and benefits	2,172,340	157,628	63,328	2,393,296
Compensated absences payable	25,842	-	-	25,842
Intergovernmental payable.	525,824	30,765	11,210	567,799
Interfund loan payable	-	385,407	175,505	560,912
Deferred revenue.	839,980	1,578,088	1,042,731	3,460,799
 Total liabilities	 3,673,588	 2,275,354	 1,351,093	 7,300,035
Fund Balances:				
Reserved for encumbrances	589,921	613,058	343,041	1,546,020
Reserved for prepayments	3,501	1,018	-	4,519
Unreserved, undesignated (deficit), reported in:				
General fund	6,919,138	-	-	6,919,138
Special revenue funds.	-	(135,118)	489,574	354,456
Capital projects funds.	-	-	677,735	677,735
 Total fund balances	 7,512,560	 478,958	 1,510,350	 9,501,868
 Total liabilities and fund balances	 \$ 11,186,148	 \$ 2,754,312	 \$ 2,861,443	 \$ 16,801,903

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

Total governmental fund balances		\$	9,501,868
<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.			1,511,488
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Customer services	\$	839,980	
Intergovernmental revenue		<u>2,620,819</u>	
Total			3,460,799
Internal service funds are used by management to charge the costs of insurance and the Leadership Academy to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			254,682
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			<u>(905,438)</u>
Net assets of governmental activities		<u>\$</u>	<u>13,823,399</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 11,173,288	\$ -	\$ -	\$ 11,173,288
Customer services	11,646,279	-	-	11,646,279
Earnings on investments	363,343	-	-	363,343
Other local revenues	45,613	70	4,496	50,179
Intergovernmental - State	3,807,185	1,938	764,159	4,573,282
Intergovernmental - Federal	-	5,428,626	2,168,092	7,596,718
Total revenue	<u>27,035,708</u>	<u>5,430,634</u>	<u>2,936,747</u>	<u>35,403,089</u>
Expenditures:				
Current:				
Instruction:				
Special	9,467,849	30,584	1,011,072	10,509,505
Vocational	175,155	-	-	175,155
Other	-	-	1,625	1,625
Support services:				
Pupil	332,351	-	111,647	443,998
Instructional staff	11,021,446	592,538	488,853	12,102,837
Board of education	100,744	-	-	100,744
Administration	1,455,724	4,546,193	1,060,443	7,062,360
Fiscal	545,794	126,927	79,466	752,187
Business	189,668	-	-	189,668
Operations and maintenance	969,903	269,727	-	1,239,630
Pupil transportation	53,149	-	-	53,149
Central	459,641	-	51,073	510,714
Operation of non-instructional services	-	-	102,073	102,073
Facilities acquisition and construction	-	-	1,279,297	1,279,297
Total expenditures	<u>24,771,424</u>	<u>5,565,969</u>	<u>4,185,549</u>	<u>34,522,942</u>
Excess of revenues under expenditures	<u>2,264,284</u>	<u>(135,335)</u>	<u>(1,248,802)</u>	<u>880,147</u>
Other financing sources (uses):				
Transfers in	-	43	28,057	28,100
Transfers (out)	(28,100)	-	-	(28,100)
Total other financing sources (uses)	<u>(28,100)</u>	<u>43</u>	<u>28,057</u>	<u>-</u>
Net change in fund balances	2,236,184	(135,292)	(1,220,745)	880,147
Fund balances at beginning of year	<u>5,276,376</u>	<u>614,250</u>	<u>2,731,095</u>	<u>8,621,721</u>
Fund balances at end of year	<u>\$ 7,512,560</u>	<u>\$ 478,958</u>	<u>\$ 1,510,350</u>	<u>\$ 9,501,868</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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 \$ 880,147

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 capital outlays exceeds depreciation expense in the current period.

Capital asset additions	674,972	
Current year depreciation	(327,105)	
Total		347,867

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (26,808)

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

Customer services	250,780	
Intergovernmental revenue	1,497,385	
Total		1,748,165

The internal service funds used by management to charge the costs of insurance and the Leadership Academy to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities. 323,304

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (89,701)

Change in net assets of governmental activities \$ 3,182,974

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Tuition	\$ 7,913,581	\$ 20,234,223	\$ 10,508,430	\$ (9,725,793)
Customer services	8,886,560	12,272,731	11,351,286	(921,445)
Earnings on investments	175,000	355,752	355,752	-
Other local revenues	20,000	45,706	42,275	(3,431)
Intergovernmental - State	3,094,771	4,116,235	3,807,185	(309,050)
Total revenue	<u>20,089,912</u>	<u>37,024,647</u>	<u>26,064,928</u>	<u>(10,959,719)</u>
Expenditures:				
Current:				
Instruction:				
Special	8,494,100	9,539,618	9,493,039	46,579
Vocational	-	146,777	146,777	-
Support services:				
Pupil	523,633	347,902	340,627	7,275
Instructional staff	8,439,879	11,156,459	10,954,327	202,132
Board of education	127,467	171,831	137,700	34,131
Administration	1,139,339	1,531,523	1,462,416	69,107
Fiscal	525,403	609,786	576,822	32,964
Business	391,185	392,936	223,866	169,070
Operations and maintenance	1,036,384	1,630,304	1,266,323	363,981
Pupil transportation	56,079	56,079	51,130	4,949
Central	325,401	546,031	476,676	69,355
Total expenditures	<u>21,058,870</u>	<u>26,129,246</u>	<u>25,129,703</u>	<u>999,543</u>
Excess of revenues over (under) expenditures	<u>(968,958)</u>	<u>10,895,401</u>	<u>935,225</u>	<u>(9,960,176)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	5,000	3,140	3,140	-
Refund of prior year's (receipts)	(1,000)	-	-	-
Transfers in	5,000	-	-	-
Transfers (out)	(350,000)	(104,442)	(37,989)	66,453
Advances in	591,000	450,236	497,265	47,029
Advances (out)	(650,000)	(697,128)	(697,128)	-
Other uses of funds	-	(129,528)	(42,811)	86,717
Total other financing sources (uses)	<u>(400,000)</u>	<u>(477,722)</u>	<u>(277,523)</u>	<u>200,199</u>
Net change in fund balance	(1,368,958)	10,417,679	657,702	(9,759,977)
Fund balance at beginning of year	5,924,686	5,924,686	5,924,686	-
Prior year encumbrances appropriated	375,394	375,394	375,394	-
Fund balance at end of year	<u>\$ 4,931,122</u>	<u>\$ 16,717,759</u>	<u>\$ 6,957,782</u>	<u>\$ (9,759,977)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ 5,313,404	\$ 5,311,405	\$ 4,347,028	\$ (964,377)
Total revenue.	<u>5,313,404</u>	<u>5,311,405</u>	<u>4,347,028</u>	<u>(964,377)</u>
Expenditures:				
Current:				
Instruction:				
Special.	1,267	77,988	48,641	29,347
Support services:				
Instructional staff	1,125,522	744,362	611,205	133,157
Administration.	4,732,703	6,140,276	5,067,745	1,072,531
Fiscal	205,926	203,682	206,832	(3,150)
Operations and maintenance.	331,417	342,703	310,769	31,934
Total expenditures	<u>6,396,835</u>	<u>7,509,011</u>	<u>6,245,192</u>	<u>1,263,819</u>
Excess of revenues over (under) expenditures.	<u>(1,083,431)</u>	<u>(2,197,606)</u>	<u>(1,898,164)</u>	<u>299,442</u>
Other financing sources (uses):				
Transfers in.	-	-	43	43
Advances in.	-	-	385,407	385,407
Advances out	-	-	(4,994)	(4,994)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>380,456</u>	<u>380,456</u>
Net change in fund balance	(1,083,431)	(2,197,606)	(1,517,708)	679,898
Fund balance (deficit) at beginning of year	(35,733)	(35,733)	(35,733)	-
Prior year encumbrances appropriated . .	819,272	819,272	819,272	-
Fund balance (deficit) at end of year. . . .	<u>\$ (299,892)</u>	<u>\$ (1,414,067)</u>	<u>\$ (734,169)</u>	<u>\$ 679,898</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 626,739
Receivables:	
Accounts	21,442
Total assets	648,181
Liabilities:	
Claims payable	393,499
Total liabilities	393,499
Net assets:	
Unrestricted.	254,682
Total net assets	\$ 254,682

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 3,823,078
Other	21,071
Total operating revenues	3,844,149
 Operating expenses:	
Purchased services.	10,904
Claims.	3,483,163
Other.	26,778
Total operating expenses	3,520,845
 Change in net assets.	323,304
 Net assets (deficit) at beginning of year . . .	(68,622)
Net assets at end of year	\$ 254,682

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 3,801,636
Cash received from other operations	21,071
Cash payments for purchased services	(10,904)
Cash payments for claims	(3,588,640)
Cash payments for other expenses.	(26,827)
Net cash provided by operating activities	196,336
Net increase in cash and cash equivalents	196,336
Cash and cash equivalents at beginning of year . . .	430,403
Cash and cash equivalents at end of year.	\$ 626,739
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 323,304
Changes in assets and liabilities:	
Increase in accounts receivable	(21,442)
Decrease in accounts payable	(49)
Decrease in claims payable.	(105,477)
Net cash provided by operating activities	\$ 196,336

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,811,455
Receivables:	
Intergovernmental	748,975
Total assets.	\$ 2,560,430
Liabilities:	
Accounts payable.	\$ 168,967
Accrued wages and benefits	106,201
Compensated absences payable	3,233
Intergovernmental payable	2,128,591
Loans payable.	153,438
Total liabilities	\$ 2,560,430

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE CENTER

The Educational Service Center of Franklin County (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally-elected five member Governing Board form of government and provides educational services as mandated by state or federal agencies. The Governing Board controls the Center's staff that provides services to over 87,470 students and other community members in Franklin County.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to four local school districts in Franklin County and also has city/county agreements with nine city school districts. In addition, the Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education projects, Ohio Coalition of Children with Disabilities, and the Catholic Diocese.

The Center serves local school districts: Canal Winchester Local School District, Groveport Madison Local School District, Hamilton Local School District, Plain Local School District and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 41 administrators, 208 certified and 283 non-certified personnel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center's significant accounting policies are described below.

A. Reporting Entity

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

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

The ESC is fiscal agent for the Franklin County Family and Children First Council (the "Council"). The ESC is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the ESC. The ESC is fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the ESC's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "Equity in Pooled Cash and Cash Equivalents".

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (the "MEC") - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County school districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Central Ohio Special Education Regional Resource Center (the "SERRC") - The SERRC is a special education service center and is a part of the Ohio Department of Education. The Center 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.

B. Fund Accounting

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

GOVERNMENTAL FUNDS

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

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

Title VI-B - The Title VI-B is used to account for Federal monies which assist states in the identification of handicapped children, and provision of full educational opportunities to handicapped children at the preschool, elementary, and secondary levels.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the Center's proprietary funds:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service funds of the Center account for a self-insurance program which provides medical benefits to employees and the Leadership Academy program.

FIDUCIARY FUNDS

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service funds is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 Center, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the Center during the fiscal year for which payment is not received in the available period is recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

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

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

E. Budgets and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

Appropriations - An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

F. Cash and Investments

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

During fiscal year 2006, investments were limited to federal agency securities, U.S. Government money markets, and investments in the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exception: investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

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

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 \$363,343, which includes \$142,923 assigned from other Center funds.

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

An analysis of the Center’s investment account at fiscal year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported 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 Center maintains a capitalization threshold of \$1,000. The 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.

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>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

H. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments as termination or retirement.

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Fund Balance Reserves

The 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 and prepayments.

K. Net Assets

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

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

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

L. Prepayments

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

M. Estimates

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Center, these revenues are charges for services for self-insurance programs and the Leadership Academy. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

O. Interfund Activity

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

P. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets. Loans between governmental funds and agency funds are reported as "loans receivable/payable" on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

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

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

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

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

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Head Start	\$ 9,305
School Improvement Models	501
Title III	4,951
Improving Teacher Quality	7,856

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the Center had \$750 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all Center deposits was \$11,012,956. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$11,015,743 of the Center's bank balance of \$11,515,743 was exposed to custodial risk as discussed below, while \$500,000 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLB	\$ 148,547	\$ 148,547
STAR Ohio	281,443	281,443
U.S. Government money market	<u>8,721</u>	<u>8,721</u>
	<u>\$ 438,711</u>	<u>\$ 438,711</u>

The weighted average maturity of investments is .11 years.

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

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 148,547	33.86
STAR Ohio	281,443	64.15
U.S. Government money market	<u>8,721</u>	<u>1.99</u>
	<u>\$ 438,711</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 11,012,956
Investments	438,711
Cash on hand	<u>750</u>
Total	<u>\$ 11,452,417</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 9,640,962
Agency funds	<u>1,811,455</u>
Total	<u>\$ 11,452,417</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Title VI-B	\$ 385,407
General	Nonmajor governmental funds	175,505

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

<u>Transfers from General fund to:</u>	<u>Amount</u>
Title VI-B	\$ 43
Non-major governmental funds	28,057

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

- C.** Loans between governmental funds and agency funds are reported as “loans receivable/payable” on the financial statements. The Center had the following loan outstanding at fiscal year end:

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>
General	Agency	\$ 153,438

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 consisted of intergovernmental (billings to school districts for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental Activities:

Accounts	\$ 33,982
Intergovernmental	7,036,927
Accrued interest	19,344

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 7 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 2,504,193	\$ 650,046	\$ (100,099)	\$ 3,054,140
Vehicles	<u>185,711</u>	<u>24,926</u>	<u>-</u>	<u>210,637</u>
Total capital assets, being depreciated	<u>2,689,904</u>	<u>674,972</u>	<u>(100,099)</u>	<u>3,264,777</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(1,386,932)	(311,855)	73,291	(1,625,496)
Vehicles	<u>(112,543)</u>	<u>(15,250)</u>	<u>-</u>	<u>(127,793)</u>
Total accumulated depreciation	<u>(1,499,475)</u>	<u>(327,105)</u>	<u>73,291</u>	<u>(1,753,289)</u>
Governmental activities capital assets, net	<u>\$ 1,190,429</u>	<u>\$ 347,867</u>	<u>\$ (26,808)</u>	<u>\$ 1,511,488</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 84,321

Support Services:

Instructional staff 17,676
Administration 136,277
Fiscal 11,233
Business 10,211
Operations and maintenance 14,722
Central 52,665

Total depreciation expense \$ 327,105

NOTE 8 - LONG-TERM OBLIGATIONS

The Center's long-term obligations at fiscal year-end consist of the following:

	<u>Balance</u> <u>Outstanding</u> <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Outstanding</u> <u>06/30/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Compensated absences	<u>\$ 819,487</u>	<u>\$ 457,789</u>	<u>\$ (345,996)</u>	<u>\$ 931,280</u>	<u>\$ 359,041</u>

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 9 - RISK MANAGEMENT

A. General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed the various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

The Center maintains replacement cost insurance on building contents in the amount of \$2,223,500 with supplemental coverage for computers and classroom equipment in the amount of \$480,000. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

B. Workers' Compensation Liability-Public Entity Risk Pool

The 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 Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all members 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.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - RISK MANAGEMENT - (Continued)

C. Health and Dental Insurance

The Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Cancelled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Balance</u> <u>June 30, 2005</u>
Claims liabilities at beginning of year	\$ 498,976	\$ 423,431
Incurred claims	3,483,163	2,955,253
Claims paid	<u>(3,588,640)</u>	<u>(2,879,708)</u>
Claim liabilities at end of year	<u>\$ 393,499</u>	<u>\$ 498,976</u>

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and state laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1 - 9	10
10 - 19	15
20 - Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days for employees with less than eight years of service and a maximum of fifty (50) days for employees with eight years or more of service.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The 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 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the 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. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$1,035,537, \$909,969, and \$714,601, respectively; 100 percent has been contributed for fiscal years 2006, 2005, 2004.

B. State Teachers Retirement System

The 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 or by calling (614) 227-4090.

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - PENSION PLANS - (Continued)

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 Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,473,812, \$1,306,303 and \$1,166,948, respectively; 100 percent has been contributed for fiscal years 2006, 2005, 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$54,282 made by the Center and \$75,739 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$113,370 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Center paid \$506,955 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 13 - STATE FUNDING

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from state resources. Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

	<u>General Fund</u>	<u>Title VI-B</u>
Budget basis	\$ 657,702	\$ (1,517,708)
Net adjustment for revenue accruals	970,780	1,083,606
Net adjustment for expenditure accruals	(350,347)	(56,926)
Net adjustment for other sources/uses	249,423	(380,413)
Adjustment for encumbrances	<u>708,626</u>	<u>736,149</u>
GAAP basis	<u>\$ 2,236,184</u>	<u>\$ (135,292)</u>

NOTE 15 – OPERATING LEASE – LESSEE DISCLOSURE

During fiscal year 2006, the Center leased from Marble Lake II LLC approximately 35,000 square feet of office space situated within the office building constructed at 2080 Citygate Drive, Columbus, Ohio. The lease commenced on April 11, 2005 and will expire five years after the construction of the building is completed. Annual rent for the first year of the lease is \$227,500 or \$6.50 per square foot and monthly rent is \$18,958. Annual rent for the second through fifth year is \$315,000 or \$9.00 per square foot and monthly rent is \$26,250. Commencing the sixth month of the lease term the Center has the option to purchase the building for \$3,515,000. In December 2006, the Center purchased the property through a lease-purchase agreement (see Note 17 for detail).

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

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

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENT

On December 21, 2006, the Center entered into a fifteen year \$3,500,000 lease-purchase agreement to purchase the office building located at 2080 Citygate Drive, Columbus, Ohio. The lease-purchase agreement is with the OASBO Expanded Asset Pool Financing Program with bonds issued through the Columbus Regional Airport Authority.

SUPPLEMENTAL DATA

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Even Start State Educational Agencies	84.213	046938-EVA1-2004	\$ 15,341	\$ -
Total Even Start State Educational Agency			<u>15,341</u>	<u>-</u>
Special Education Cluster:				
(A) Special Education Grants to States	84.027	046938-GBEC-2005	104,040	114,601
(A) Special Education Grants to States	84.027	046938-6BII-2005	9,300	11,237
(A) Special Education Grants to States	84.027	046938-6BAA-2005	-	5,226
(A) Special Education Grants to States	84.027	046938-6BPT-2005P	-	247,568
(A) Special Education Grants to States	84.027	046938-6BPB-2006	95,659	108,379
(A) Special Education Grants to States	84.027	046938-6BPT-2006	432,532	489,563
(A) Special Education Grants to States	84.027	046938-6BSA-2005	31,149	26,211
(A) Special Education Grants to States	84.027	046938-6BSA-2006	8,245	6,817
(A) Special Education Grants to States	84.027	046938-6BSI-2005	166,165	476,717
(A) Special Education Grants to States	84.027	046938-6BSI-2006	1,580,079	1,652,586
(A) Special Education Grants to States	84.027	046938-6BST-2006	101,867	93,274
(A) Special Education Grants to States	84.027	046938-6BSV-2005	515,498	888,967
(A) Special Education Grants to States	84.027	046938-6BSV-2006	1,300,487	1,373,296
Total Special Education Grants to States			<u>4,345,021</u>	<u>5,494,442</u>
(A) Special Education Preschool Grants	84.173	046938-PGD1-2004	9,050	10,126
(A) Special Education Preschool Grants	84.173	046938-PGS2-2003	-	9,590
(A) Special Education Preschool Grants	84.173	046938-PGD3-2005	-	21,086
(A) Special Education Preschool Grants	84.173	046938-PGD2-2004	82,027	35,000
(A) Special Education Preschool Grants	84.173	046938-PGDS-2005	90,353	124,122
(A) Special Education Preschool Grants	84.173	046938-PGD2-2006	188,209	222,197
(A) Special Education Preschool Grants	84.173	046938-PGD3-2004	20,290	-
(A) Special Education Preschool Grants	84.173	046938-PGS1-2005	50	50
(A) Special Education Preschool Grants	84.173	046938-PGS1-2006	102,641	102,641
Total Special Education Preschool Grant			<u>492,620</u>	<u>524,812</u>
Total Special Education Cluster			<u>4,837,641</u>	<u>6,019,254</u>
State Grants for Innovative Programs	84.298	046938-C2A2-2004	13,514	35,458
State Grants for Innovative Programs	84.298	046938-CMA1-2005	39,433	30,603
Total State Grants for Innovative Program:			<u>52,947</u>	<u>66,061</u>
Special Education - State Personnel Developmen	84.323	046938-STSI-2005	12,700	12,827
Total Special Education - State Personnel Developmen			<u>12,700</u>	<u>12,827</u>
(C) English Language Acquisition Grant:	84.365	046938-T3S1-2005	37,331	9,911
English Language Acquisition Grant:	84.365	046938-T3S1-2006	17,181	35,738
Total English Language Acquisition Grant			<u>54,512</u>	<u>45,649</u>
(D) Improving Teacher Quality State Grants	84.367	046938-TRSA-2005	(12,117)	199,000
Improving Teacher Quality State Grants	84.367	046938-TRSA-2006	99,608	100,573
Improving Teacher Quality State Grants	84.367	046938-TRSP-2004	47,577	18,513
Improving Teacher Quality State Grants	84.367	046938-TRSP-2005	36,847	84,424
Total Improving Teacher Quality			<u>171,915</u>	<u>402,510</u>
Total U.S. Department of Education			<u>5,145,056</u>	<u>6,546,301</u>
U.S. DEPARTMENT OF HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES				
State Children's Insurance Program	93.767	N/A	7,135	7,135
Total State Children's Insurance Program			<u>7,135</u>	<u>7,135</u>
Medical Assistance Program	93.778	N/A	59,374	59,374
Total Medical Assistance Program			<u>59,374</u>	<u>59,374</u>
Total U.S. Department of Human Services			<u>66,509</u>	<u>66,509</u>
Total Federal Financial Assistance			<u>\$ 5,211,565</u>	<u>\$ 6,612,810</u>

- (A) Included as part of "Special Education Grant Cluster" in determining major programs.
(B) This schedule was prepared on the cash basis of accounting
(C) Amount of \$2,559 transferred to the next grant year based on Ohio Department of Education administrative action
(D) Amount of \$12,117 transferred to the next grant year based on Ohio Department of Education administrative action



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County (the "Center"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to the management of the Center in a separate letter dated January 4, 2007.

Governing Board
Educational Service Center of Franklin County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a matter that we reported to management in a separate letter dated January 4, 2007.

This report is intended solely for the information and use of management and the Governing Board, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 4, 2007



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**Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

Compliance

We have audited the compliance of the Educational Service Center of Franklin County (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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The Center’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the Center’s management. 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Governing Board
Educational Service Center of Franklin County

Internal Control Over Compliance

The management of the Center 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 have a direct and material effect on each of its major federal program in order 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of the Center, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
January 4, 2007

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
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 non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Special Education Cluster: Special Education: Grants to States (CFDA #84.027); and Special Education: Preschool Grants (CFDA #84.173); and Improving Teacher Quality (CFDA # 84.367)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE



Mary Taylor, CPA
Auditor of State

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

FRANKLIN 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
APRIL 5, 2007**