



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Greene County
360 East Enon Road
Yellow Springs, Ohio 45387

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Greene County Educational Service Center, Greene County, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2007, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) provides additional information and is not a required part of the basic financial statements. We subjected the Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

January 10, 2007

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- In total, net assets increased \$362,216, which represents a 49.2 percent increase from fiscal year 2005.
- General revenues accounted for \$1,781,484 in revenue or 15.6 percent of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$9,612,293 or 84.4 percent of total revenues of \$11,393,777.
- The Educational Service Center had \$11,031,561 in expenses; \$9,612,293 of these expenses were offset by program specific charges for services and operating grants and contributions. General revenues (primarily grants and entitlements) of \$1,781,484 provided for the remainder of these costs.
- The General Fund had \$11,095,233 in revenues and \$10,766,804 in expenditures. The General Fund's balance increased \$328,429.

Using the Basic Financial Statements

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 Greene County Educational Service 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 the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide 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 Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

Reporting the Educational Service 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 Educational Service Center to provide programs and activities, the view of the Educational Service 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 and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

All of the Educational Service 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 fiscal 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 statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

The Educational Service Center as a Whole

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005

	Table 1		
	Net Assets		
	2006	2005	Change
Assets:			
Current and Other Assets	\$2,546,800	\$2,400,720	\$146,080
Capital Assets	654,764	646,984	7,780
Total Assets	<u>3,201,564</u>	<u>3,047,704</u>	<u>153,860</u>
Liabilities:			
Long-Term Liabilities	791,807	872,054	(80,247)
Other Liabilities	1,310,996	1,439,105	(128,109)
Total Liabilities	<u>2,102,803</u>	<u>2,311,159</u>	<u>(208,356)</u>
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	321,384	267,900	53,484
Restricted	94,047	70,557	23,490
Unrestricted	683,330	398,088	285,242
Total Net Assets	<u><u>\$1,098,761</u></u>	<u><u>\$736,545</u></u>	<u><u>\$362,216</u></u>

Total net assets of governmental activities increased by \$362,216 due to increases in revenues. The Educational Service Center earned a significantly higher amount of interest revenue on cash deposits during the fiscal year, which contributed to the increase. Also, through a more accurate and aggressive billing of Medicaid eligible services from Mental Health Service components the Educational Service Center earned more Federal Medicaid. The additional revenue received during the fiscal year was approximately \$91,000. Both of these revenue increases were achieved with no additional personnel related costs. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the Educational Service Center increased by \$285,242, mainly because of these same reasons.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

Table 2			
Changes in Net Assets			
	2006	2005	Change
Revenues:			
Program Revenues:			
Charges for Services	\$8,376,740	\$8,283,797	\$92,943
Operating Grants and Contributions	1,235,553	1,279,385	(43,832)
Total Program Revenues	9,612,293	9,563,182	49,111
General Revenues:			
Grants and Entitlements	1,484,593	1,465,546	19,047
Investment Earnings	87,008	9,780	77,228
Miscellaneous	209,883	189,522	20,361
Total General Revenues	1,781,484	1,664,848	116,636
Total Revenues	11,393,777	11,228,030	165,747
Program Expenses:			
Instruction:			
Regular	1,969,494	2,135,894	(166,400)
Special	3,316,713	2,981,086	335,627
Support Services:			
Pupils	2,880,563	2,917,717	(37,154)
Instructional Staff	1,901,797	2,021,055	(119,258)
Board of Education	25,405	26,299	(894)
Administration	311,336	268,219	43,117
Fiscal	256,993	245,957	11,036
Business	41,322	36,817	4,505
Operation and Maintenance of Plant	182,629	177,165	5,464
Central	10,588	7,042	3,546
Operation of Non-instructional Services	5,559	6,758	(1,199)
Intergovernmental	111,138	181,321	(70,183)
Interest and Fiscal Charges	18,024	20,271	(2,247)
Total Expenses	11,031,561	11,025,601	\$5,960
Increase in Net Assets	362,216	202,429	
Net Assets Beginning of Year	736,545	534,116	
Net Assets End of Year	\$1,098,761	\$736,545	

Governmental Activities

Charges for services of \$8,376,740 make up 73.5 percent of total revenues of \$11,393,377.

The decrease in operating grants and contributions was due primarily to less grant money received from Title I Delinquent Funds as a result of the Juvenile Court in Xenia no longer desiring to use the Educational Service Center for educational involvement of juveniles incarcerated in the detention or rehabilitation centers. The Educational Service Center also did not receive the Safe and Drug Free Community Services Grant in fiscal year 2006.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

Instruction comprises 47.9 percent of governmental program expenses. Support services expenses make up 50.9 percent of governmental program expenses. Overall, instruction costs increased by \$169,227 primarily do to a two percent increase in base pay to employees. Regular instruction, however, decreased due to the Educational Service Center's loss of involvement in the Rehabilitation and Detention Education, resulting in two less teachers before the end of the fiscal year. Also, the physical education teacher was paid partially from special education rather than completely from regular instruction, which also explains part of the increase in special instruction. The addition of one occupational therapist and two severe behavioral handicapped teachers and the increase of days worked by part-time therapists also contributed to the significant increase in special instruction.

Instructional support services declined from the prior fiscal year, because of a decrease in services provided to Sugarcreek Local School District.

The 38.7 percent decrease in intergovernmental expenses was because of less pass through grant money received, which resulted in less money spent during the fiscal year.

The statement of activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$5,286,207	\$440,540	\$5,116,980	\$522,156
Support Services	5,610,633	(1,781,756)	5,700,271	(1,873,259)
Operation of Non- Instructional Services	5,559	21,769	6,758	636
Intergovernmental	111,138	(81,797)	181,321	(91,681)
Interest and Fiscal Charges	18,024	(18,024)	20,271	(20,271)
Total Expenses	\$11,031,561	(\$1,419,268)	\$11,025,601	(\$1,462,419)

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,473,160 and expenditures of \$11,119,588. The net change in fund balance for the year in the General Fund was \$328,429. The Educational Service Center covers its costs by combining State revenue with the revenue it realizes from the local school districts in the county. The intent is to realize a marginal profit. The districts are charged an estimated "cost of services" each month. At fiscal year-end, a reconciliation is performed to determine what a district may still owe or what a district may be owed. Typically, after the estimated amount is established, additional services may be requested. Usually, the revenue to cover these additional expenses is not received until after the reconciliation is performed. On occasion, this revenue is not received until well into the following fiscal year.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

The Educational Service Center also has programs that are paid for with tuition charged to the districts using these programs. Expenses are realized in the fiscal year, but tuition invoices at the end of the year are typically not paid in a timely manner. The increase in the General Fund balance is due to a combination of estimating the "cost of services" more accurately and through a more aggressive accounts receivable program for tuition. Using a more aggressive accounts receivable program enables a realization of more tuition revenue within the required time to be included as revenue for the fiscal year, which contributed to the increase in the General Fund.

Capital Assets

At the end of the fiscal year 2006 the Educational Service Center had \$654,764 invested in land, land improvements, building and improvements, and furniture and equipment.

Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

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

	<u>2006</u>	<u>2005</u>
Land	\$161,360	\$161,360
Land Improvements	22,351	23,811
Building and Improvements	401,333	384,812
Furniture and Equipment	69,720	77,001
Totals	<u>\$654,764</u>	<u>\$646,984</u>

Overall capital assets, net of depreciation, increased \$7,780 from fiscal year 2005 to fiscal year 2006. The primary increase occurred in building and improvements for a classroom trailer. For more information on capital assets, refer to Note 8 of the basic financial statements.

Debt Administration

At June 30, 2006, the Educational Service Center had \$333,380 in total outstanding debt of capital leases. Refer to Notes 13 and 14 of the basic financial statements for additional information.

Current Financial Issues and Concerns

The Educational Service Center provides services at the pleasure of the local, city, and exempted village school districts in Greene County. The majority of the services are special education in nature. The services these children are to be provided are mandated by IEP's, Individual Education Plans. The districts are required, by law, to serve these children. The school districts may provide the service through their own personnel, or contract out to have it provided. Most of the districts rely solely on the Educational Service Center to provide these services, while a few provide them with a combination of the Educational Service Center's staff and their own staff. The Educational Service Center has proven that purchasing the services from the Educational Service Center is a cost effective way for the districts to provide the services.

One of the Educational Service Center's major concerns revolves around the loss of State support the districts are realizing. The districts are required to make cuts in their general program to make funding available for these special education services they are required to provide. There is very little fear the districts will stop utilizing the Educational Service Center in providing these services. There is a fear the districts could stop using the Educational Service Center to provide services that they are not required to provide.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

The Educational Service Center's Alternative Education programs are, for the most part, elective programs. If financial constraints on the districts become large enough, and they choose not to enroll kids in the programs, the programs will fail to support themselves. If this were to happen, the Educational Service Center would terminate these elective programs. The Alternative Education programs account for about \$950,000 of the Educational Service Center's annual costs and revenues.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Chip Arledge, Treasurer, at Greene County Educational Service Center, 360 East Enon Road, Yellow Springs, Ohio 45387 or email at gcb_carledge@mveca.org.

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**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,861,576
Intergovernmental Receivable	664,729
Prepaid Items	20,495
Nondepreciable Capital Assets	161,360
Depreciable Capital Assets, Net	493,404
Total Assets	3,201,564
Liabilities:	
Accounts Payable	38,305
Accrued Wages and Benefits Payable	975,860
Intergovernmental Payable	296,831
Long-Term Liabilities:	
Due Within One Year	115,508
Due in More Than One Year	676,299
Total Liabilities	2,102,803
Net Assets:	
Invested in Capital Assets, Net of Related Debt	321,384
Restricted for:	
Other Purposes	94,047
Unrestricted	683,330
Total Net Assets	\$1,098,761

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
			<u>Total Governmental Activities</u>
Governmental Activities:			
Instruction:			
Regular	\$1,969,494	\$2,322,563	\$85,417
Special	3,316,713	2,308,223	1,010,544
			\$438,486
			2,054
Support Services:			
Pupils	2,880,563	1,912,418	70,821
Instructional Staff	1,901,797	1,282,146	6,878
Board of Education	25,405	17,057	
Administration	311,336	206,888	4,059
Fiscal	256,993	171,685	
Business	41,322	28,149	
Operation and Maintenance of Plant	182,629	120,074	
Central	10,588	2,702	6,000
Operation of Non-Instructional Services	5,559	4,835	22,493
Intergovernmental	111,138		29,341
Interest and Fiscal Charges	18,024		
Total Governmental Activities	<u>\$11,031,561</u>	<u>\$8,376,740</u>	<u>\$1,235,553</u>
			(1,419,268)
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			1,484,593
Investment Earnings			87,008
Miscellaneous			209,883
Total General Revenues			<u>1,781,484</u>
Change in Net Assets			362,216
Net Assets Beginning of Year			736,545
Net Assets End of Year			<u>\$1,098,761</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,748,263	\$113,313	\$1,861,576
Intergovernmental Receivable	651,208	13,521	664,729
Prepaid Items	20,495		20,495
Total Assets	<u>\$2,419,966</u>	<u>\$126,834</u>	<u>\$2,546,800</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$21,622	\$16,683	\$38,305
Accrued Wages and Benefits Payable	965,258	10,602	975,860
Intergovernmental Payable	295,770	1,061	296,831
Deferred Revenue	81,088		81,088
Total Liabilities	<u>1,363,738</u>	<u>28,346</u>	<u>1,392,084</u>
Fund Balances:			
Reserved for Encumbrances	41,404	2,271	43,675
Unreserved, Undesignated, Reported in:			
General Fund	1,014,824		1,014,824
Special Revenue Funds		96,217	96,217
Total Fund Balances	<u>1,056,228</u>	<u>98,488</u>	<u>1,154,716</u>
Total Liabilities and Fund Balances	<u>\$2,419,966</u>	<u>\$126,834</u>	<u>\$2,546,800</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

Total Governmental Fund Balances	\$1,154,716
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**Amounts reported for governmental activities in the
statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$161,360	
Land Improvements	25,344	
Building and Improvements	481,582	
Furniture and Equipment	162,413	
Accumulated Depreciation	<u>(175,935)</u>	
		654,764

Long-term assets are not available soon enough to pay for the current period expenditures and therefore are deferred in the funds.

Tuition and Fees	16,775	
Charges for Services	<u>64,313</u>	
		81,088

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Compensated Absences	(458,427)	
Capital Lease Payable	<u>(333,380)</u>	
		<u>(791,807)</u>

Net Assets of Governmental Activities	<u><u>\$1,098,761</u></u>
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See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Intergovernmental	\$2,365,204	\$354,942	\$2,720,146
Interest	87,008		87,008
Tuition and Fees	1,616,342	12,100	1,628,442
Extracurricular Activities		4,611	4,611
Charges for Services	6,823,070		6,823,070
Miscellaneous	203,609	6,274	209,883
Total Revenues	<u>11,095,233</u>	<u>377,927</u>	<u>11,473,160</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,890,389	85,255	1,975,644
Special	3,140,034	131,266	3,271,300
Support Services:			
Pupils	2,829,803	73,410	2,903,213
Instructional Staff	1,928,208	19,861	1,948,069
Board of Education	25,405		25,405
Administration	305,146	4,058	309,204
Fiscal	255,500		255,500
Business	41,232		41,232
Operation and Maintenance of Plant	176,959		176,959
Central	4,024	6,264	10,288
Operation of Non-Instructional Services		5,559	5,559
Capital Outlay	22,349		22,349
Intergovernmental	84,027	27,111	111,138
Debt Service:			
Principal Retirement	45,704		45,704
Interest and Fiscal Charges	18,024		18,024
Total Expenditures	<u>10,766,804</u>	<u>352,784</u>	<u>11,119,588</u>
Net Change in Fund Balances	328,429	25,143	353,572
Fund Balances at Beginning of Year	727,799	73,345	801,144
Fund Balances at End of Year	<u>\$1,056,228</u>	<u>\$98,488</u>	<u>\$1,154,716</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**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	\$353,572
 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. In the current period, these amounts are:	
Capital Outlay	\$42,580
Current Year Depreciation Expense	<u>(34,800)</u>
Excess of Capital Outlay over Depreciation Expense	7,780
Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:	
Capital Lease Payments	45,704
Some revenues that will not be collected for several months after the Educational Service Center's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred Revenues changed by these amounts:	
Tuition and Fees	(49,738)
Charges for Services	<u>(29,645)</u>
	(79,383)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in Compensated Absences	<u>34,543</u>
Change in Net Assets of Governmental Activities	<u><u>\$362,216</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Greene County Educational Service Center (the "Educational Service Center") is located in Yellow Springs, Ohio. The Educational Service Center supplies supervisory, special education, administrative and other services to the Beavercreek, Cedar Cliff, Greeneview, and Sugarcreek Local School Districts, the Yellow Springs Exempted Village School District, and the Fairborn and Xenia City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Greene County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Board members must be a resident of either Cedar Cliff, Greeneview, or Sugarcreek Local School Districts. The Educational Service Center has 176 employees, which includes 39 teachers, 39 special education therapists, 43 educational aides, 20 mental health therapists, 23 administrative employees, and 12 administrative support staff that provide services to the local, exempted village, and city school districts.

A. Reporting Entity:

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

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

The Educational Service Center participates in five jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Miami Valley Educational Computer Association
- Southwestern Ohio Educational Purchasing Council
- Miami Valley Special Education Regional Resource Center
- Greene County Family and Children First Council
- The Western Regional Professional Development Center

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY
(Continued)**

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'
Compensation Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
Ohio School Plan

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements:

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

B. Fund Accounting

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

1. Governmental Funds:

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

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

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

C. Measurement Focus

1. Government-wide Financial Statements:

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

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements:

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

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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions:

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: excess cost and tuition and student fees.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are 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.

3. Expenses/Expenditures:

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, the Educational Service Center had no investments.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$87,008 which includes \$5,365 assigned from other Educational Service Center funds.

F. Prepaid Items

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

G. Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets usually 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.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of two thousand five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15-20 years
Building and Improvements	20-25 years
Furniture and Equipment	10-20 years

H. Accrued Liabilities and Long-term Obligations

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

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

I. Compensated Absences

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

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

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

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

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

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

The government-wide statement of net assets reports \$94,047 of restricted net assets, of which none are restricted by enabling legislation.

K. Fund Balance Reserves

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

L. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in the General Fund or the Preschool Grant Fund.

M. Interfund Transactions

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

N. Estimates

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

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the Educational Service Center has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,"* and *GASB Statement No. 47, "Accounting for Termination Benefits."*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Educational Service Center's financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Educational Service Center's financial statements for fiscal year 2006.

4. ACCOUNTABILITY

At June 30, 2006, the Alternative School Grant and Parent Mentor Grant Funds had deficit fund balances of \$118 and \$665, respectively. The General Fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

5. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies 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 but not limited to passbook accounts.

Interim monies held by the Educational Service Center may 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;

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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;
4. Bonds and other obligations of the State of Ohio or local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,371,635 of the School District's bank balance of \$2,471,750 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution .

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

6. STATE AND LOCAL SCHOOL DISTRICT FUNDING

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

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

6. STATE AND LOCAL SCHOOL DISTRICT FUNDING (Continued)

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to \$12.00 times the school district's total student count and remits this amount to the Educational Service Center.

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

7. RECEIVABLES

Intergovernmental receivables at June 30, 2006, consisted of excess costs and tuition from other school districts. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities:	
Excess Costs	\$631,370
Tuition and Student Fees	33,359
Total Intergovernmental Receivables	\$664,729

8. CAPITAL ASSETS

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

	Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$161,360			\$161,360
Capital Assets, Being Depreciated:				
Land Improvements	25,344			25,344
Building and Improvements	445,381	\$36,201		481,582
Furniture and Equipment	156,034	6,379		162,413
Total Capital Assets, Being Depreciated	626,759	42,580		669,339
Less Accumulated Depreciation:				
Land Improvements	(1,533)	(1,460)		(2,993)
Building and Improvements	(60,569)	(19,680)		(80,249)
Furniture and Equipment	(79,033)	(13,660)		(92,693)
Total Accumulated Depreciation	(141,135)	(34,800) *		(175,935)
Capital Assets, Being Depreciated, Net	485,624	7,780		493,404
Governmental Activities Capital Assets, Net	\$646,984	\$7,780	\$0	\$654,764

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

8. CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$599
Special	11,164
Support Services:	
Pupils	3,171
Instructional Staff	9,258
Administration	4,606
Fiscal	1,811
Operation and Maintenance of Plant	3,891
Central	300
Total Depreciation Expense	\$34,800

9. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Educational Service Center contracted with Indiana Insurance Company for property insurance with a \$2,500 deductible and \$4,471,063 as the limit.

The Educational Service Center does not own any vehicles. The vehicles owned by employees who travel are covered under a business policy with the Indiana Insurance Company which has a \$1,000,000 limit on any accident.

During fiscal year 2006, the Educational Service Center along with other school districts in Ohio participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 15). The Educational Service Center contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

Insurance coverage provided includes the following:

Education General Liability:	
Each Occurrence and Sexual Abuse Injury Limit	\$1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

Errors and Omissions Liability (\$2,500 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Employment Practices (\$2,500 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

B. Workers' Compensation

For fiscal year 2006, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2006, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 15). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participants is calculated and a premium rate is applied to all participants in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to participants that can meet the MBP's selection criteria.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$246,682, \$226,295, and \$191,857, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

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

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

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

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$695,930, \$675,754, and \$694,235, respectively; 83.46 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$18,281 made by the Educational Service Center and \$34,227 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$53,533 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

11. POST-EMPLOYMENT BENEFITS (Continued)

care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$126,249.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn fifteen to twenty-five days vacation per fiscal year, depending upon length of service. Employees may accumulate five vacation days over their yearly maximum allowance at any time during a contract year. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave is converted to sick leave at fiscal year-end. Accumulated, unused personal leave is not paid to employees upon termination of employment. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for all personnel. Upon retirement, employees with ten or more years of current service with the Educational Service Center receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 65 days. For those employees with less than 10 years of service, the maximum leave payment is 40 days.

B. Insurance Benefits

The Educational Service Center provides dental insurance, life insurance and accidental death and dismemberment insurance to most employees through Coresource.

C. Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan and the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

13. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the Educational Service Center entered into capitalized leases for reproduction equipment. In fiscal year 2003, the Educational Service Center entered into a lease-purchase agreement for the purchase and renovation of the land and building where the Educational Service Center is housed, instead of continuing to make rental payments. The initial term of the agreement was July 25, 2002, until June 30, 2003, provided that U. S. Bank and/or the Educational Service Center will have the right to renew for a total of not more than nine additional one-year renewable terms beginning on July 1, 2003. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments made during fiscal year 2006 totaled \$45,704 in the General Fund.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Land	\$161,360	\$0	\$161,360
Building and Improvements	359,729	55,380	304,349
Totals	\$521,089	\$55,380	\$465,709

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Year	Amount
2007	\$63,727
2008	63,727
2009	63,727
2010	63,727
2011	63,727
2011-2013	69,038
Total	387,673
Less: Amount Representing Interest	(54,293)
Present Value of Minimum Lease Payments	\$333,380

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

14. LONG-TERM OBLIGATIONS

	Amount			Amount	
	Outstanding		Deletions	Outstanding	Due in
	6/30/2005	Additions		6/30/2006	One Year
Compensated Absences Payable	\$492,970	\$157,565	\$192,108	\$458,427	\$67,452
Capital Lease Obligation	379,084		45,704	333,380	48,056
Total Governmental Activities					
Long-Term Obligations	<u>\$872,054</u>	<u>\$157,565</u>	<u>\$237,812</u>	<u>\$791,807</u>	<u>\$115,508</u>

Compensated absences will be paid from the General Fund and the Other Governmental Funds. Capital leases will be paid from the General Fund.

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The Educational Service Center is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Educational Service Center paid MVECA \$19,812 for services provided during the fiscal year. Financial information can be obtained from Norma Stewart, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 Educational Service Centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the Educational Service Center paid \$660 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

**15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Miami Valley Special Education Regional Resource Center - The Miami Valley Special Education Regional Resource Center (MVSERRC) is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in the Miami Valley which comprise sixty percent of the Board, two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Developmental Disabilities, representatives of universities and students and persons with disabilities. The Educational Service Center participates in the following services of MVSERRC: Identification and Program Development Project, Regional Educational Assessment Programming Project, Instructional Resource Center Project, Early Childhood Services Project, and the Ohio Resource Center for Low Incidence and Severely Handicapped Project. These services are to assist the Educational Service Center in complying with mandates of Public Law 99-457 for educating children with disabilities.

There is no financial commitment made by the School Districts involved in MVSERRC. MVSERRC is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the MVSERRC. The Educational Service Center made no contributions to MVSERRC during fiscal year 2006.

Greene County Family and Children First Council - The Greene County Family and Children First Council (Council) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the Director of the Board of Alcohol, Drug Addiction and Mental Health Services that serve Greene County, the Health Commissioner of the Board of Greene County, the Director of the Greene County Department of Human Services, the Executive Director of Greene County's Children Services Board, the Superintendent of Greene County's Board of Mental Retardation and Developmental Disabilities, the Greene County Juvenile Court Judge, the Superintendents of all School Districts and Educational Service Centers within the County, a representative of the largest city in the County, the Chair of the Board of Greene County Commissioners, a representative of the regional office of the Department of Youth Services, a representative of Head Start services in Greene County, a representative of Greene County's Early Intervention Collaborative, and at least three individuals representing families residing in Greene County. When possible, the number of members representing families will be equal to twenty percent of the Council's remaining membership. In fiscal year 2006, the Educational Service Center made no contributions to the Council; however a payable of \$18,158 exists at year-end for services during the fiscal year. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding.

The Western Regional Professional Development Center - The Western Regional Professional Development Center (WRPDC) is a committee established by Senate Bill 230. The purpose of the WRPDC is to review the course work and other professional development activities completed by educators within the district for renewal of certificates or licenses. Membership is open to all schools within Greene County, including the Greene County MRDD. The Executive Committee is comprised of a chairperson, vice-chairperson, recorder/clerk, member Superintendent, County Superintendent, chairperson of each subcommittee, and any other person that the committee deems necessary to make sure that every member school district has at least one person on the Executive Committee. The County Superintendent is the only non-voting member. The overall committee structure shall be such that teachers shall comprise the majority of the positions within the committees. There are no fees or charges to be paid by the member school districts. Additional information can be obtained from Jeanne Anderson, Secretary, at P.O. Box 972, Dayton, Ohio 45422.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

**15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Darke County Educational Service Center and eight other members elected by majority vote of all member Educational Service Centers. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participating Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating Educational Service Center serves on the general assembly. Each year, the participating Educational Service Centers pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Plan – The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

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**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$2,355,535	\$2,373,292	\$2,465,329	\$92,037
Interest	60,000	81,000	83,173	2,173
Tuition and Fees	1,771,676	1,713,371	1,667,570	(45,801)
Charges for Services	6,487,314	6,534,694	6,429,093	(105,601)
Miscellaneous	215,361	200,673	197,618	(3,055)
Total Revenues	<u>10,889,886</u>	<u>10,903,030</u>	<u>10,842,783</u>	<u>(60,247)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,075,752	2,088,299	1,984,323	103,976
Special	3,034,641	3,194,273	3,040,025	154,248
Support Services:				
Pupils	2,879,325	2,890,188	2,793,912	96,276
Instructional Staff	1,994,958	2,096,440	1,969,338	127,102
Board of Education	34,484	34,484	25,438	9,046
Administration	345,949	340,631	305,332	35,299
Fiscal	269,451	269,799	258,743	11,056
Business	40,617	42,902	40,335	2,567
Operation and Maintenance of Plant	232,407	242,407	182,217	60,190
Central	4,000	4,000	4,000	
Capital Outlay	97,000	144,000	110,577	33,423
Total Expenditures	<u>11,008,584</u>	<u>11,347,423</u>	<u>10,714,240</u>	<u>633,183</u>
Excess of Revenues Over (Under) Expenditures	(118,698)	(444,393)	128,543	572,936
Other Financing Uses:				
Refund of Prior Year Receipts	(246,000)	(246,000)	(245,127)	873
Net Change in Fund Balance	(364,698)	(690,393)	(116,584)	573,809
Fund Balance at Beginning of Year	1,804,642	1,804,642	1,804,642	
Prior Year Encumbrances Appropriated	4,058	4,058	4,058	
Fund Balance at End of Year	<u>\$1,444,002</u>	<u>\$1,118,307</u>	<u>\$1,692,116</u>	<u>\$573,809</u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. BUDGETARY PROCESS

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

The Educational Service Center's Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

The Educational Service Center's Board adopts an annual appropriations resolution, which is the Board's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund/function/object level for the General Fund and at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from the prior fiscal years. The amounts reports as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

2. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (Non-GAAP Basis) and actual is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

**EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General
GAAP Basis	<u>\$328,429</u>
Revenue Accruals	(258,231)
Expenditure Accruals	(136,416)
Encumbrances	(46,857)
Unrecorded Cash - FY06	(9,290)
Unrecorded Cash - FY05	5,781
Budget Basis	<u><u>(\$116,584)</u></u>



Mary Taylor, CPA

Auditor of State

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

Educational Service Center
Greene County
360 East Enon Road
Yellow Springs, Ohio 45387

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Greene County Educational Service Center, Greene County, (the Educational Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 10, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

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

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www.auditor.state.oh.us

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

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

January 10, 2007

EDUCATIONAL SERVICE CENTER
GREENE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006

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

FINDING NUMBER 2006-001

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

Although the Educational Service Center is not subject to this requirement, they have indicated it is policy that it is followed to provide assurance that funds expended do not exceed the budget amount authorized. Our testing identified 16 of 25 (64%) of transactions were not certified prior to commitment of the funds. Additionally, 4 of 25 (16%) of transactions were for amounts greater than the amount authorized on the approved purchase order. To help reduce the possibility the Educational Service Center's funds exceed budgetary spending limits, funds should be certified by the fiscal officer and purchase orders should more accurately indicate the amount authorized.

Officials Response:

We did not receive a response from Officials to this finding.



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

GREENE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2007**