



**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2006 & 2005



Mary Taylor, CPA
Auditor of State

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

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GEAUGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, (the Service Center) as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, as of June 30, 2006 and June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the Service Center restated their July 1, 2004 net assets due to revaluation of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2007, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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.

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

February 21, 2007

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

Financial Highlights

Key Financial Highlights for 2006 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Some analysis with prior year data cannot be generated by definition since this is the first year of presentation.
- In total, net assets increased by \$236,246.
- Revenues for governmental activities totaled \$7,666,413 in 2006. Of this total, 16 percent consisted of general revenues while program revenues accounted for the balance of 84 percent.
- Program expenses totaled \$7,430,167. Instructional expenses made up 31 percent of this total while support services accounted for 68 percent with the remaining accounting for 1%.

Using this Annual Financial Report

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

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

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

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

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The Educational Service Center as a Whole

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

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2006</i>	<i>2005</i>
Assets		
Current and Other Assets	\$1,723,943	\$1,323,711
Capital Assets, Net	64,624	83,276
<i>Total Assets</i>	1,788,567	1,406,987
Liabilities		
Current and Other Liabilities	756,397	586,188
Long-Term Liabilities		
Due Within One Year	32,230	11,096
Due in More than One Year	216,769	262,778
<i>Total Liabilities</i>	1,005,396	860,062
Net Assets		
Invested in Capital Assets, Net of Debt	64,624	83,276
Restricted for Other Purposes	166,934	123,384
Unrestricted	551,613	340,265
<i>Total Net Assets</i>	\$783,171	\$546,925

Total assets increased by \$381,580. Current and Other Assets increased by \$400,232. The increase is attributed to an increase in collections from tuition and fees and customer service charges. Liabilities increased by \$145,334 mostly as a result of an increase in accrued wages and benefits associated with them.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center improved as evidenced by increased assets and minimal change in net assets.

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

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
Changes in Net Assets

	<i>Governmental Activities 2006</i>	<i>Governmental Activities 2005</i>
Revenues		
Program Revenues:		
Charges for Services	\$5,710,648	\$4,780,332
Operating Grants and Contributions	701,490	795,621
<i>Total Program Revenues</i>	<u>6,412,138</u>	<u>5,575,953</u>
General Revenues:		
Grants and Entitlements	1,224,205	1,249,390
Investments	30,070	16,771
Miscellaneous	0	3,801
<i>Total General Revenues</i>	<u>1,254,275</u>	<u>1,269,962</u>
<i>Total Revenues</i>	<u>7,666,413</u>	<u>6,845,915</u>
Program Expenses		
Instruction		
Regular	183,582	209,883
Special	2,095,274	1,806,823
Adult/Continuing	24,304	28,755
Support Services:		
Pupil	2,702,569	2,261,556
Instructional Staff	1,636,233	1,573,485
Board of Education	22,434	26,356
Administration	420,577	428,809
Fiscal	157,784	158,111
Business	95,743	92,410
Operation and Maintenance	15,429	14,322
Pupil Transportation	2,885	15,104
Central	73,353	62,998
<i>Total Program Expenses</i>	<u>7,430,167</u>	<u>6,678,612</u>
Increase in Net Assets	236,246	167,303
<i>Net Assets Beginning of Year</i>	<u>546,925</u>	<u>379,622</u>
<i>Net Assets End of Year</i>	<u>\$783,171</u>	<u>\$546,925</u>

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. Revenues increased due to additional instructional and support services rendered the school districts during the year. Due to the additional services, the Educational Service Center's expenditures increased due to additional salaries being paid to personnel.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$1,018,029 Net Cost of Services 2006, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	<i>Total Cost of Services 2006</i>	<i>Net Cost of Services 2006</i>
Instruction:		
Regular	\$183,582	(\$9,120)
Special	2,095,274	(417,317)
Adult/Continuing	24,304	(3,765)
Support Services:		
Pupil	2,702,569	717,986
Instructional Staff	1,636,233	219,942
Board of Education	22,434	22,434
Administration	420,577	225,195
Fiscal	157,784	106,888
Business	95,743	94,772
Operation and Maintenance of Plant	15,429	15,429
Pupil Transportation	2,885	(539)
Central	73,353	46,124
<i>Total</i>	<i>\$7,430,167</i>	<i>\$1,018,029</i>

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 21 of the notes to the basic financial statements. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,777,942 and expenditures of \$7,458,708. The general fund balance increased \$325,998 primarily due to increased collections from customer sales and services revenue.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the Educational Service Center amended its general fund budget, but not significantly. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

For the general fund, the original budget basis revenue estimate totaled \$5,778,743 compared to the final budget basis revenue estimate of \$6,862,494. The increase can be attributed to increased collection from customer sales and services revenues. The final budget basis expenditures estimate totaled \$7,166,974 compared to original estimates of \$5,341,728. The increase in the budget can be attributed to increased services provided to the participating school districts for special education instruction, support services for pupils and support service for the instructional staff.

Capital Assets

At the end of fiscal 2006, the Educational Service Center had \$64,624 invested in furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2006 values compared to 2005.

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

	<i>Governmental Activities</i>	
	<i>2006</i>	<i>2005</i>
Furniture and Fixtures	\$150,351	\$150,351
Accumulated Depreciation	(85,727)	(67,075)
<i>Totals</i>	<u>\$64,624</u>	<u>\$83,276</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 8 of the basic financial statements.

Current Financial Related Activities

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

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lorri Petersen, Treasurer, at Geauga Educational Service Center, 470 Center St. Bldg 2, Geauga, Ohio 44024-1068 or call 440-285-2222.

Geauga County Educational Service Center

Statement of Net Assets

June 30, 2006

	<u>Governmental</u> <u>Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,263,938
Intergovernmental Receivable	455,642
Accounts Receivable	4,363
Depreciable Capital Assets, net	64,624
Total Assets	<u>1,788,567</u>
Liabilities	
Accounts Payable	4,759
Accrued Wages and Benefits	582,010
Intergovernmental Payable	154,538
Matured Compensated Absences Payable	15,090
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	32,230
Due in More Than One Year	216,769
Total Liabilities	<u>1,005,396</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	64,624
Restricted for Other Purposes	166,934
Unrestricted	551,613
Total Net Assets	<u><u>\$783,171</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	<u>Program Revenues</u>			<i>Net (Expense) Revenue and Changes in Net Assets</i>
	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
<u>Expenses</u>				
Governmental Activities				
Instruction:				
Regular	\$183,582	\$190,733	\$1,969	\$9,120
Special	2,095,274	2,199,571	313,020	417,317
Adult/Continuing	24,304	0	28,069	3,765
Support Services:				
Pupils	2,702,569	1,834,970	149,613	(717,986)
Instructional Staff	1,636,233	1,298,568	117,723	(219,942)
Board of Education	22,434	0	0	(22,434)
Administration	420,577	108,218	87,164	(225,195)
Fiscal	157,784	50,896	0	(106,888)
Business	95,743	971	0	(94,772)
Operation and Maintenance of Plant	15,429	0	0	(15,429)
Pupil Transportation	2,885	2,492	932	539
Central	73,353	24,229	3,000	(46,124)
Totals	<u>\$7,430,167</u>	<u>\$5,710,648</u>	<u>\$701,490</u>	<u>(\$1,018,029)</u>
 General Revenues				
Grants and Entitlements not Restricted to Specific Programs				1,224,205
Investment Earnings				30,070
Total General Revenues				<u>1,254,275</u>
Change in Net Assets				236,246
Net Assets Beginning of Year				546,925
Net Assets End of Year				<u>\$783,171</u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2006

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$1,120,425	\$143,513	\$1,263,938
Intergovernmental Receivable	361,274	94,368	455,642
Interfund Receivable	23,500	0	23,500
Accounts Receivable	4,363	0	4,363
<i>Total Assets</i>	<u>\$1,509,562</u>	<u>\$237,881</u>	<u>\$1,747,443</u>
<i>Liabilities</i>			
Accounts Payable	\$4,256	\$503	\$4,759
Accrued Wages and Benefits	556,581	25,429	582,010
Intergovernmental Payable	148,745	5,793	154,538
Deferred Revenue	0	50,924	50,924
Interfund Payable	0	23,500	23,500
Compensated Absences Payable	15,090	0	15,090
<i>Total Liabilities</i>	<u>724,672</u>	<u>106,149</u>	<u>830,821</u>
<i>Fund Balances</i>			
Reserved for Encumbrances	23,537	24,314	47,851
Unreserved, Undesignated, Reported in:			
General Fund	761,353	0	761,353
Special Revenue Funds	0	107,418	107,418
<i>Total Fund Balances</i>	<u>784,890</u>	<u>131,732</u>	<u>916,622</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,509,562</u>	<u>\$237,881</u>	<u>\$1,747,443</u>

See Accompanying Notes to the Basic Financial Statements

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

<i>Total Governmental Fund Balances</i>	\$916,622
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Intergovernmental assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	50,924
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	64,624
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(248,999)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$783,171</u></u>

See Accompanying Notes to the Basic Financial Statements

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

	<u><i>General Fund</i></u>	<u><i>Other Governmental Funds</i></u>	<u><i>Total Governmental Funds</i></u>
<i>Revenues</i>			
Intergovernmental	\$1,210,178	\$635,146	\$1,845,324
Interest	30,070	0	30,070
Tuition and Fees	348,900	975	349,875
Gifts and Donations	31,939	0	31,939
Customer Sales and Services	5,466,269	54,465	5,520,734
<i>Total Revenues</i>	<u>7,087,356</u>	<u>690,586</u>	<u>7,777,942</u>
<i>Expenditures</i>			
Current:			
Instruction:			
Regular	180,801	1,955	182,756
Special	1,862,856	260,904	2,123,760
Adult/Continuing	6,212	18,092	24,304
Support Services:			
Pupils	2,497,943	185,057	2,683,000
Instructional Staff	1,497,193	140,898	1,638,091
Board of Education	22,434	0	22,434
Administration	361,064	84,559	445,623
Fiscal	152,484	0	152,484
Business	95,208	0	95,208
Operation and Maintenance of Plant	15,288	0	15,288
Pupil Transportation	0	2,885	2,885
Central	69,875	3,000	72,875
<i>Total Expenditures</i>	<u>6,761,358</u>	<u>697,350</u>	<u>7,458,708</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	325,998	(6,764)	319,234
<i>Fund Balances Beginning of Year</i>	<u>459,072</u>	<u>138,316</u>	<u>597,388</u>
<i>Fund Balances End of Year</i>	<u><u>\$785,070</u></u>	<u><u>\$131,552</u></u>	<u><u>\$916,622</u></u>

See Accompanying Notes to the Basic Financial Statements

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

Net Change in Fund Balances - Total Governmental Funds \$319,234

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

Intergovernmental revenues in the statement of activities that do not (111,529)
provide current financial resources are not reported as revenues in the funds.

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Depreciation	<u>(18,652)</u>	
Total		(18,652)

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

Pension Contributions	22,318	
Compensated Absences	<u>24,875</u>	
Total		<u>47,193</u>

Changes in Net Assets of Governmental Activities \$236,246

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over/(Under)
	Original	Final		
Revenues				
Customer Sales and Services	\$4,170,500	\$5,242,070	\$5,242,070	\$0
Intergovernmental	1,265,118	1,209,818	1,209,818	0
Tuition and Fees	323,000	344,537	344,537	0
Interest	12,000	34,130	34,130	0
Gifts and Donations	8,125	31,939	31,939	0
Total Revenues	5,778,743	6,862,494	6,862,494	0
Expenditures				
Current:				
Instruction:				
Regular	270,620	233,187	186,913	46,274
Special	1,643,765	2,069,316	1,811,799	257,517
Adult/Continuing	4,462	8,365	6,212	2,153
Support Services:				
Pupils	1,730,324	2,470,616	2,420,154	50,462
Instructional Staff	1,391,203	1,653,155	1,477,336	175,819
Board of Education	8,567	29,286	19,931	9,355
Administration	192,656	363,925	348,104	15,821
Fiscal	28,213	156,926	155,067	1,859
Business	2,516	98,598	96,018	2,580
Operation and Maintenance of Plant	9,525	16,514	15,288	1,226
Central	59,877	67,086	64,430	2,656
Total Expenditures	5,341,728	7,166,974	6,601,252	565,722
<i>Excess of Revenues Over (Under) Expenditures</i>	437,015	(304,480)	261,242	565,722
Other Financing Sources and Uses				
Advances In	2,000	39,000	39,000	0
Advances Out	(2,080)	(60,500)	(60,500)	0
Total Other Financing Sources and Uses	(80)	(21,500)	(21,500)	0
Net Change in Fund Balance	436,935	(325,980)	239,742	565,722
Fund Balance Beginning of Year	838,247	838,247	838,247	0
Prior Year Encumbrances Appropriated	17,892	17,892	17,892	0
Fund Balance End of Year	1,293,074	530,159	1,095,881	565,722

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	<u><i>Investment Trust</i></u>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,005,626
Intergovernmental Receivable	<u>218,093</u>
<i>Total Assets</i>	<u><u>1,223,719</u></u>
<i>Liabilities</i>	
Accrued Wages and Benefits	1,018
Intergovernmental Payable	<u>4,619</u>
<i>Total Liabilities</i>	<u>5,637</u>
<i>Net Assets</i>	
Held in Trust for Pool Participants	<u>1,218,082</u>
<i>Total Net Assets</i>	<u><u>\$1,218,082</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year June 30, 2006

	<i>Investment Trust</i>
<i>Additions</i>	
Interest	\$27,735
<i>Deductions</i>	
Distributions to Participants	(27,735)
Capital Transactions	431,199
	403,464
<i>Total Deductions</i>	403,464
<i>Change in Net Assets</i>	431,199
<i>Net Assets Beginning of Year</i>	786,883
<i>Net Assets End of Year</i>	\$1,218,082

See Accompanying Notes to the Basic Financial Statements

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Geauga County Educational Service Center

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

Note 1 - Description of the Educational Service Center

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 56 noncertificated, 76 certificated staff who provide services to 13,226 students through the school districts in Geauga County.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in note 7 to the basic financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has an investment trust fund which is used to account for the activity of the external investment pool for the Lake-Geauga Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

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

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Data

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2006, the general fund received interest earned in the amount of \$30,070 and the private purpose trust received interest earned in the amount of \$27,735.

G. Prepaid Items

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is \$1,000. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

I. Interfund Balances

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

J. Compensated Absences

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or fiduciary fund net assets.

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

L. Interfund Transactions

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

M. Net Assets

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

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

N. Fund Balance Reserves

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

O. Estimates

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

P. Extraordinary and Special Items

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

Note 3 - 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity-Budget and Actual (Budget Basis) Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements on a fund type basis for the general fund and major special revenue fund.

Net Change in Fund Balance

	<i>General</i>
<i>GAAP Basis</i>	\$325,998
Net Adjustment for Revenue Accruals	(224,862)
Advances In	39,000
Net Adjustment for Expenditure Accruals	184,841
Advances Out	(60,500)
Adjustment for Encumbrances	(24,735)
<i>Budget Basis</i>	\$239,742

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 4 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 4 - Deposits and Investments (continued)

6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$2,269,564. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2006, \$2,231,170 of the Educational Service Center's \$2,431,170 bank balance was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

Investments As of June 30, 2006, the Educational Service Center had no outstanding investments.

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

Concentration of Credit Risk. The Educational Service Center places no limit on the amount that may be invested to any one issuer.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 5 - Receivables

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

	<i>Amounts</i>
<i>General Fund:</i>	
Intergovernmental	\$ 361,274
<i>Total General Fund</i>	361,274
<i>Special Revenue Funds:</i>	
IDEA-B	86,819
Early Learning	7,549
<i>Total Special Revenue Funds</i>	\$ 94,368
<i>Total Intergovernmental Receivables</i>	\$ 455,642

Note 6 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$43.50 for each of the 13,268 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 7 - Jointly Governed Organization and Insurance Purchasing Pool

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association (“Association”) is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association’s assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers’ Compensation Group Rating Program (“Plan”) was established as an insurance purchasing pool.

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

Note 8 - Capital Assets

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

	<i>Balance at</i> <i>6/30/05</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i> <i>6/30/06</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures & Equipment	\$ 150,351	\$ 0	\$ 0	\$ 150,351
<i>Total Capital Assets, being depreciated</i>	<u>150,351</u>	<u>0</u>	<u>0</u>	<u>150,351</u>
<i>Less Accumulated Depreciation:</i>				
Furniture, Fixtures & Equipment	(67,075)	(18,652)	0	(85,727)
<i>Total Accumulated Depreciation</i>	<u>(67,075)</u>	<u>(18,652)</u>	<u>0</u>	<u>(85,727)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 83,276</u>	<u>\$ (18,652)</u>	<u>\$ 0</u>	<u>\$ 64,624</u>

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 8 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 826
Special	11,083
Support Services:	
Pupils	359
Instructional Staff	617
Administration	3,307
Fiscal	1,306
Business	535
Operation and Maintenance of Plant	141
Central	478
<i>Total Depreciation Expense</i>	\$ 18,652

There was no significant construction in progress at June 30, 2006.

Note 9 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Professional liability was protected by Harcum-Schuett Insurance Company with a \$5,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and holds a \$100 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2006, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 7B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 10 - Defined Benefit Pension Plan

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for fiscal year 2006, 10.58 percent was the portion used to fund pension obligations. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2006, 2005, and 2004 were \$173,848, \$156,378, and \$63,806, respectively, equal to the required contributions for each year. One hundred percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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 DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the 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 ORC.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 10 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2006, 2005, and 2004 were \$509,439,\$445,931, and \$391,465, respectively, equal to the required contributions for each year. One hundred percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

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

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$39,188 during the 2006 fiscal year.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. All retirees and beneficiaries are requires to pay a portion of their premium for health care. The portion is based on years of service, medicare eligibility, and retirement status. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate 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. 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 to fund health care benefits, including surcharge, equaled \$65,734, during the fiscal year. The target level for the health care reserves is 150 percent of projected claims less premium contributions for the next fiscal year.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 11 - Post Employment Benefits (continued)

Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participating currently receiving health care benefits.

Note 12 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 235 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 58.75 days.

B. Life Insurance

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust.

Note 13 - Long-Term Obligations

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

	<i>Balance July 1, 2005</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30, 2006</i>	<i>Due Within One Year</i>
Compensated Absences	\$ 273,874	\$0	\$24,875	\$ 248,999	\$ 32,230
<i>Total Long-Term Obligations</i>	<u>\$ 273,874</u>	<u>\$0</u>	<u>\$24,875</u>	<u>\$ 248,999</u>	<u>\$ 32,230</u>

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

Note 14 - Contingencies

A. Grants

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

B. Litigation

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006(continued)

Note 15 – Interfund Transactions

Interfund balances at June 30, 2006, consist of a receivable of \$23,500 for the general fund and a payable of \$17,000 for the Title VI-B special revenue fund and \$6,500 for the Early Learning special revenue fund.

Note 16 – External Investment Pool

By Statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center’s for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each Participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 4, “Deposits and Investment”. Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2006

Assets	
Equity in Cash and Cash Equivalents	\$2,269,564
<i>Total Assets</i>	\$2,269,564
 Net Assets Held in Trust for Pool Participants	
Internal Portion	\$1,263,938
External Portion	1,005,626
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$2,269,564

Statement of Changes Net Assets
For Fiscal Year June 30, 2006

Additions	
Interest	\$57,805
Capital Transactions	609,504
Total Additions	667,309
 Deductions	
Operating Expenses	0
Distribution to Participants	(57,805)
Total Deductions	(57,805)
<i>Total Increase in Net Assets</i>	609,504
<i>Net Assets Beginning of Year</i>	1,660,060
<i>Net Assets End of Year</i>	\$2,269,564

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

The discussion and analysis of Geauga County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Some analysis with prior year data cannot be generated by definition since this is the first year of presentation.
- In total, net assets increased by \$167,303.
- Revenues for governmental activities totaled \$6,845,915 in 2005. Of this total, 19 percent consisted of General revenues while Program revenues accounted for the balance of 81 percent.
- Program expenses totaled \$6,678,612. Instructional expenses made up 31 percent of this total while support services accounted for 69 percent.

Using this Annual Financial Report

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

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

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 41. Fund financial reports 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 funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds

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

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2005 compared to 2004:

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

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2005</i>	<i>2004</i>
Assets		
Current and Other Assets	\$1,323,711	\$1,082,138
Capital Assets, Net	83,276	84,030
<i>Total Assets</i>	1,406,987	1,166,168
Liabilities		
Current and Other Liabilities	586,188	526,748
Long-Term Liabilities		
Due Within One Year	11,096	16,151
Due in More than One Year	262,778	243,647
<i>Total Liabilities</i>	860,062	786,546
Net Assets		
Invested in Capital Assets, Net of Debt	83,276	84,030
Restricted for Other Purposes	123,384	82,107
Unrestricted	340,265	213,485
<i>Total Net Assets</i>	\$546,925	\$379,622

Total assets increased by \$240,819. Current and Other Assets increased by \$241,573. The increase is attributed to an increase in collections from tuition and fees and customer service charges. Liabilities increased by \$73,516 mostly as a result of an increase in accrued wages and benefits associated with them.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center improved as evidenced by increased assets and minimal change in net assets.

Table 2 shows the changes in net assets from fiscal year 2005 to fiscal year 2004. A comparative analysis of government-wide data is presented below:

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

Table 2
Changes in Net Assets

	<i>Governmental Activities 2005</i>	<i>Governmental Activities 2004</i>
Revenues		
Program Revenues:		
Charges for Services	\$4,780,332	\$3,017,591
Operating Grants and Contributions	795,621	561,693
<i>Total Program Revenues</i>	<u>5,575,953</u>	<u>3,579,284</u>
General Revenues:		
Grants and Entitlements	1,249,390	2,263,841
Investments	16,771	5,463
Miscellaneous	3,801	13,401
<i>Total General Revenues</i>	<u>1,269,962</u>	<u>2,282,705</u>
<i>Total Revenues</i>	<u>6,845,915</u>	<u>5,861,989</u>
Program Expenses		
Instruction		
Regular	209,883	171,794
Special	1,806,823	1,784,958
Adult/Continuing	28,755	33,485
Support Services:		
Pupil	2,261,556	1,952,651
Instructional Staff	1,573,485	1,191,947
Board of Education	26,356	20,124
Administration	428,809	423,200
Fiscal	158,111	144,896
Business	92,410	83,254
Operation and Maintenance	14,322	27,847
Pupil Transportation	15,104	10,059
Central	62,998	59,644
<i>Total Program Expenses</i>	<u>6,678,612</u>	<u>5,903,859</u>
Increase (Decrease) in Net Assets	167,303	(41,870)
<i>Net Assets Beginning of Year</i>	<u>379,622</u>	<u>421,492</u>
<i>Net Assets End of Year</i>	<u>\$546,925</u>	<u>\$379,622</u>

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. Revenues increased due to increased collections from school districts for service rendered by the Educational Service Center. Expenditures increased due to increased instructional and support services provided to school districts during fiscal year 2005. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

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

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$1,102,659 Net Cost of Services 2005, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	<i>Total Cost of Services 2005</i>	<i>Net Cost of Services 2005</i>
Instruction:		
Regular	\$209,883	(\$50,803)
Special	1,806,823	765,402
Adult/Continuing	28,755	4,064
Support Services:		
Pupil	2,261,556	(4,852)
Instructional Staff	1,573,485	(78,977)
Board of Education	26,356	26,356
Administration	428,809	126,883
Fiscal	158,111	155,881
Business	92,410	92,410
Operation and Maintenance of Plant	14,322	6,145
Pupil Transportation	15,104	152
Central	62,998	59,998
<i>Total</i>	<i>\$6,678,612</i>	<i>\$1,102,659</i>

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 55 of the notes to the basic financial statements. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,683,462 and expenditures of \$6,669,014. The General Fund balance decreased \$28,243 primarily due to increased expenditures for services rendered to member school districts.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the Educational Service Center amended its general fund budget, but not significantly. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

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

For the general fund, the original budget basis revenue estimate totaled \$4,989,988 compared to the final budget basis revenue estimate of \$5,850,151. The increase can be attributed to increased collection from customer sales and services revenues. The final budget basis expenditures estimate totaled \$6,174,712 compared to original estimates of \$4,945,532. The increase in the budget can be attributed to increased services provided to the participating school districts.

Capital Assets

At the end of fiscal 2005, the Educational Service Center had \$83,276 invested in furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2005 values compared to 2004.

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

	<i>Governmental Activities</i>	
	<i>2005</i>	<i>2004</i>
Furniture and Fixtures	\$150,351	\$132,932
Accumulated Depreciation	(67,075)	(48,902)
<i>Totals</i>	<i>\$83,276</i>	<i>\$84,030</i>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 9 of the basic financial statements.

Current Financial Related Activities

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

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lorri Petersen, Treasurer, at Geauga Educational Service Center, 470 Center St. Bldg 2, Geauga, Ohio 44024-1068 or call 440-285-2222.

Geauga County Educational Service Center

Statement of Net Assets

June 30, 2005

	<u>Governmental</u> <u>Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$972,519
Intergovernmental Receivable	345,418
Prepaid Items	5,774
Depreciable Capital Assets, net	83,276
Total Assets	<u>1,406,987</u>
Liabilities	
Accounts Payable	3,749
Accrued Wages	478,789
Intergovernmental Payable	103,650
Long-Term Liabilities:	
Due Within One Year	11,096
Due in More Than One Year	262,778
Total Liabilities	<u>860,062</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	83,276
Restricted for Other Purposes	123,384
Unrestricted	340,265
Total Net Assets	<u><u>\$546,925</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<u>Expenses</u>			
Governmental Activities			
Instruction:			
Regular	\$209,883	\$257,358	\$3,328
Special	1,806,823	800,560	240,861
Adult/Continuing	28,755	0	24,691
Support Services:			
Pupils	2,261,556	1,996,394	270,014
Instructional Staff	1,573,485	1,503,158	149,304
Board of Education	26,356	0	0
Administration	428,809	222,862	79,064
Fiscal	158,111	0	2,230
Business	92,410	0	0
Operation and Maintenance of Plant	14,322	0	8,177
Pupil Transportation	15,104	0	14,952
Central	62,998	0	3,000
Totals	<u>\$6,678,612</u>	<u>\$4,780,332</u>	<u>\$795,621</u>
			<u>(\$1,102,659)</u>
General Revenues			
Grants and Entitlements not Restricted to Specific Programs			1,249,390
Investment Earnings			16,771
Miscellaneous			3,801
Total General Revenues			<u>1,269,962</u>
Change in Net Assets			167,303
Net Assets Beginning of Year - Restated (See Note 3)			<u>379,622</u>
Net Assets End of Year			<u><u>\$546,925</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2005

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$860,187	\$112,332	\$972,519
Intergovernmental Receivable	299,168	46,250	345,418
Interfund Receivable	2,000	0	2,000
Prepaid Items	5,774	0	5,774
<i>Total Assets</i>	<u>\$1,167,129</u>	<u>\$158,582</u>	<u>\$1,325,711</u>
<i>Liabilities</i>			
Accounts Payable	\$2,074	\$1,675	\$3,749
Accrued Wages and Benefits	464,518	14,271	478,789
Deferred Revenue	162,453	0	162,453
Interfund Payable	0	2,000	2,000
Intergovernmental Payable	79,012	2,320	81,332
<i>Total Liabilities</i>	<u>708,057</u>	<u>20,266</u>	<u>728,323</u>
<i>Fund Balances</i>			
Reserved for Encumbrances	17,713	11,184	28,897
Unreserved, Undesignated, Reported in:			
General Fund	441,359	0	441,359
Special Revenue Funds	0	127,132	127,132
<i>Total Fund Balances</i>	<u>459,072</u>	<u>138,316</u>	<u>597,388</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,167,129</u>	<u>\$158,582</u>	<u>\$1,325,711</u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2005

<i>Total Governmental Fund Balances</i>	\$597,388
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Intergovernmental assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	162,453
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	83,276
Intergovernmental payable includes contractually required pension obligations not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(22,318)
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(273,874)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$546,925</u></u>

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Intergovernmental	\$1,249,390	\$776,570	\$2,025,960
Interest	16,771	0	16,771
Tuition and Fees	325,304	0	325,304
Gifts and Donations	19,051	0	19,051
Customer Sales and Services	4,285,538	7,037	4,292,575
Miscellaneous	3,801	0	3,801
<i>Total Revenues</i>	<u>5,899,855</u>	<u>783,607</u>	<u>6,683,462</u>
Expenditures			
Current:			
Instruction:			
Regular	205,915	3,142	209,057
Special	1,581,785	218,105	1,799,890
Adult/Continuing	2,185	26,570	28,755
Support Services:			
Pupils	2,023,957	228,907	2,252,864
Instructional Staff	1,421,161	153,055	1,574,216
Board of Education	26,356	0	26,356
Administration	352,503	84,359	436,862
Fiscal	155,296	2,230	157,526
Business	91,875	0	91,875
Operation and Maintenance of Plant	7,737	6,444	14,181
Pupil Transportation	0	15,104	15,104
Central	59,328	3,000	62,328
<i>Total Expenditures</i>	<u>5,928,098</u>	<u>740,916</u>	<u>6,669,014</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(28,243)	42,691	14,448
<i>Fund Balances Beginning of Year</i>	<u>487,315</u>	<u>95,625</u>	<u>582,940</u>
<i>Fund Balances End of Year</i>	<u><u>\$459,072</u></u>	<u><u>\$138,316</u></u>	<u><u>\$597,388</u></u>

See Accompanying Notes to the Basic Financial Statements

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

Net Change in Fund Balances - Total Governmental Funds \$14,448

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

Intergovernmental revenues in the statement of activities that do not 162,453
provide current financial resources are not reported as revenues in the funds.

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	17,419	
Depreciation	<u>(18,173)</u>	
 Total		 (754)

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

Pension Contributions	5,232	
Compensated Absences	<u>(14,076)</u>	
 Total		 <u>(8,844)</u>

Changes in Net Assets of Governmental Activities \$167,303

Geauga County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$1,168,073	\$1,247,815	\$1,247,815	\$0
Interest	4,500	12,711	12,711	0
Tuition and Fees	313,100	325,574	325,574	0
Gifts and Donations	8,250	19,051	19,051	0
Customer Sales and Services	3,494,065	4,241,199	4,241,662	463
Miscellaneous	2,000	3,801	3,801	0
<i>Total Revenues</i>	<u>4,989,988</u>	<u>5,850,151</u>	<u>5,850,614</u>	<u>463</u>
Expenditures				
Current:				
Instruction:				
Regular	218,908	213,017	205,056	7,961
Special	1,498,576	1,654,652	1,581,300	73,352
Adult/Continuing	6,291	6,647	2,185	4,462
Support Services:				
Pupils	1,255,310	2,004,109	1,982,341	21,768
Instructional Staff	1,277,790	1,543,525	1,408,336	135,189
Board of Education	23,515	30,310	27,022	3,288
Administration	384,508	385,271	354,085	31,186
Fiscal	139,554	162,285	159,623	2,662
Business	87,472	93,499	91,875	1,624
Operation and Maintenance of Plant	6,958	11,573	8,178	3,395
Central	46,650	69,824	64,956	4,868
<i>Total Expenditures</i>	<u>4,945,532</u>	<u>6,174,712</u>	<u>5,884,957</u>	<u>289,755</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>44,456</u>	<u>(324,561)</u>	<u>(34,343)</u>	<u>290,218</u>
<i>Other Financing Sources and Uses</i>				
Advances In	10,000	12,500	12,500	0
Advances Out	<u>(5,500)</u>	<u>(7,500)</u>	<u>(7,500)</u>	<u>0</u>
<i>Total Other Financing Sources and Uses</i>	<u>4,500</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	48,956	(319,561)	(29,343)	290,218
<i>Fund Balance Beginning of Year</i>	853,429	853,429	853,429	0
Prior Year Encumbrances Appropriated	<u>14,161</u>	<u>14,161</u>	<u>14,161</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>916,546</u></u>	<u><u>548,029</u></u>	<u><u>838,247</u></u>	<u><u>290,218</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	<u><i>Investment Trust</i></u>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$687,541
Intergovernmental Receivable	<u>100,533</u>
<i>Total Assets</i>	<u><u>788,074</u></u>
<i>Liabilities</i>	
Intergovernmental Payable	<u>1,191</u>
<i>Total Liabilities</i>	<u>1,191</u>
<i>Net Assets</i>	
Held in Trust for Pool Participants	<u>786,883</u>
<i>Total Net Assets</i>	<u><u>\$786,883</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year June 30, 2005

	<i>Investment Trust</i>
<i>Additions</i>	
Interest	\$11,242
<i>Deductions</i>	
Distributions to Participants	(11,242)
Capital Transactions	(55,944)
<i>Total Deductions</i>	(67,186)
<i>Change in Net Assets</i>	67,186
<i>Net Assets Beginning of Year</i>	719,697
<i>Net Assets End of Year</i>	\$786,883

See Accompanying Notes to the Basic Financial Statements

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Geauga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Note 1 - Description of the Educational Service Center

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 63 noncertificated, 72 certificated staff who provide services to 13,268 students through the school districts in Geauga County.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in note 8 to the basic financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has an investment trust fund which is used to account for the activity of the external investment pool for the Lake-Geauga Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

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

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Data

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to Certificates of Deposit, and STAR Ohio, the State Treasurer's Investment Pool. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in the State Treasury Asset Reserve ("STAR Ohio") during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2005, the general fund received interest earned in the amount of \$16,771 and the private purpose trust received interest earned in the amount of \$11,242.

G. Prepaid Items

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the Educational Service Center increased its capitalization threshold from \$500 to \$1,000. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

I. Interfund Balances

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

J. Compensated Absences

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or fiduciary fund net assets.

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

L. Interfund Transactions

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

M. Net Assets

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

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

N. Fund Balance Reserves

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

O. Estimates

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

Note 3 – Change in Accounting Principles and Restatement of Net Assets

For fiscal year 2005, the Educational Service Center has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosure” and GASB Technical Bulletin: 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures and Liabilities by Cost-Sharing Employers”.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin 2004-2 addresses the amount that should be recognized as expenditures/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin 2004-2 did not have a material effect on the financial statements of the Educational Service Center.

Beginning year net assets were restated from \$351,101 to \$379,622, an increase of \$28,521. The increase is attributed to a revaluation of the Educational Service Centers fixed assets inventory.

Note 4 - 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity-Budget and Actual (Budget Basis) Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements on a fund type basis for the general fund and major special revenue fund.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 4 - Budgetary Basis of Accounting (continued)

Net Change in Fund Balance

	<i>General</i>
<i>GAAP Basis</i>	(\$28,243)
Net Adjustment for Revenue Accruals	(49,241)
Advances In	12,500
Net Adjustment for Expenditure Accruals	61,031
Advances Out	(7,500)
Adjustment for Encumbrances	(17,890)
<i>Budget Basis</i>	(\$29,343)

Note 5 - Deposits and Investments

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

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

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

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

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

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

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

Gauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 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, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$1,660,060. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2005, \$1,586,509 of the Educational Service Center's \$1,786,509 bank balance was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

Gauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 5 - Deposits and Investments (continued)

At June 30, 2005, the Educational Service Center had no investments.

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

Concentration of Credit Risk. The Educational Service Center places no limit on the amount that may be invested to any one issuer.

Note 6 - Receivables

Receivables at June 30, 2005, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Intergovernmental	\$ 299,168
<i>Total General Fund</i>	299,168
 <i>Special Revenue Funds:</i>	
IDEA-B	7,311
Title I	38,939
<i>Total Special Revenue Funds</i>	\$ 46,250
 <i>Total Intergovernmental Receivables</i>	 \$ 345,418

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$43.50 for each of the 13,268 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 8 - Jointly Governed Organization and Insurance Purchasing Pool

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association (“Association”) is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association’s assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers’ Compensation Group Rating Program (“Plan”) was established as an insurance purchasing pool.

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

Note 9 - Capital Assets

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

	<i>Restated Balance at 6/30/04</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/05</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures & Equipment	\$ 132,932	\$ 17,419	\$ 0	\$ 150,351
<i>Total Capital Assets, being depreciated</i>	<u>132,932</u>	<u>17,419</u>	<u>0</u>	<u>150,351</u>
<i>Less Accumulated Depreciation:</i>				
Furniture, Fixtures & Equipment	(48,902)	(18,173)	0	(67,075)
<i>Total Accumulated Depreciation</i>	<u>(48,902)</u>	<u>(18,173)</u>	<u>0</u>	<u>(67,075)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 84,030</u>	<u>\$ (754)</u>	<u>\$ 0</u>	<u>\$ 83,276</u>

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 9 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 826
Special	10,835
Support Services:	
Students	692
Instructional Staff	617
Administration	2,551
Fiscal	1,306
Business Manager	535
Maintenance	141
Central	670
<i>Total Depreciation Expense</i>	\$ 18,173

There was no significant construction in progress at June 30, 2005.

Note 10 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Professional liability was protected by Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and holds a \$100 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 8B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 11 - Defined Benefit Pension Plan

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for fiscal year 2005, 10.57 percent was the portion used to fund pension obligations. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2005, 2004, and 2003 were \$156,378, \$63,806, and \$48,616, respectively, equal to the required contributions for each year. One hundred percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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 DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the 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 ORC.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 11 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2005, 2004, and 2003 were \$445,931, \$391,465, and \$375,405, respectively, equal to the required contributions for each year. One hundred percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2005, one of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

Note 12 - Post Employment Benefits

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$34,302 during the 2005 fiscal year.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate 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. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$73,063, during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 12 - Post Employment Benefits (continued)

Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 (the latest information available), SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participating currently receiving health care benefits.

Note 13 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 220 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 55 days.

B. Life Insurance

The Educational Service Center provides \$40,000 life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust.

Note 14 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2005, are as follows:

	<i>Principal Outstanding July 1, 2004</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 2005</i>	<i>Due Within One Year</i>
Compensated Absences	\$ 259,798	\$ 14,076	\$0	\$ 273,874	\$ 11,096
<i>Total Long-Term Obligations</i>	<u>\$ 259,798</u>	<u>\$ 14,076</u>	<u>\$0</u>	<u>\$ 273,874</u>	<u>\$ 11,096</u>

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

Note 15 - Contingencies

A. Grants

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

B. Litigation

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005 (continued)

Note 16 – Interfund Transactions

Interfund balances at June 30, 2005, consist of a receivable of \$2,000 for the general fund and a payable of \$2,000 for the Title I special revenue.

Note 17 – External Investment Pool

By Statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center’s for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each Participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 5, “Deposits and Investment”. Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2005

Assets	
Equity in Cash and Cash Equivalents	\$1,660,060
<i>Total Assets</i>	\$1,660,060
 Net Assets Held in Trust for Pool Participants	
Internal Portion	\$972,519
External Portion	687,541
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$1,660,060

Statement of Changes Net Assets
For Fiscal Year June 30, 2005

Additions	
Interest	\$28,013
Capital Transactions	89,538
Total Additions	117,551
 Deductions	
Operating Expenses	0
Distribution to Participants	(28,013)
Total Deductions	(28,013)
<i>Total Increase in Net Assets</i>	89,538
<i>Net Assets Beginning of Year</i>	1,570,522
<i>Net Assets End of Year</i>	\$1,660,060

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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*

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, (the Service Center) as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 21, 2007, wherein we noted for the year ended 2005, the Service Center restated their July 1, 2004 net assets due to revaluation of capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated February 21, 2007, we reported a matter involving control financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

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www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management and the Board. 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

February 21, 2007



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007