MADISON-CHAMPAIGN EDUCATIONAL
SERVICE CENTER

CHAMPAIGN COUNTY, OHIO

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

MATTHEW KETCHAM, TREASURER

Mary Taylor, CPA
Auditor of State

Board of Education
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2007

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MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Governing Board
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparisons for the General fund and major special revenue fund: miscellaneous state grants fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 20, 2006

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased $602,448 which represents a 62.95% decrease from 2005.

- General revenues accounted for $1,351,034 in revenue or 16.11% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $7,032,909 or 83.89% of total revenues of $8,383,943.

- The Center had $8,986,391 in expenses related to governmental activities; $7,032,909 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of $1,351,034 were not adequate to provide for these programs.

- The Center's major governmental funds are the general fund and the miscellaneous state grants fund. The general fund had $6,615,581 in revenues and $7,168,464 in expenditures. During fiscal year 2006, the general fund's fund balance decreased $552,883 from $946,268 to $393,385.

- The Center's miscellaneous state grants fund had $311,970 in revenues and $310,778 in expenditures. During fiscal year 2006, the miscellaneous state grants fund's fund balance increased $1,192 from $14,475 to $15,667.

Using these Basic Financial Statements

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

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

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

The Center's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 8. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund and the miscellaneous state grants fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-19 of this report.

Reporting the **Center***'s Fiduciary Responsibilities*

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-42 of this report.

The Center as a Whole

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

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

Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current and other assets	$ 1,712,606	$ 2,185,789
Capital assets, net	220,780	255,892
Total assets	1,933,386	2,441,681
Liabilities		
Current liabilities	1,164,134	1,083,776
Long-term liabilities	414,748	400,953
Total liabilities	1,578,882	1,484,729
Net Assets		
Invested in capital assets, net of related debt	165,936	187,183
Restricted	160,695	132,668
Unrestricted	27,873	637,101
Total net assets	$ 354,504	$ 956,952

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's assets exceeded liabilities by $354,504. Of this total, $27,873 is unrestricted in use.

At year-end, capital assets represented 11.42% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were $165,936. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

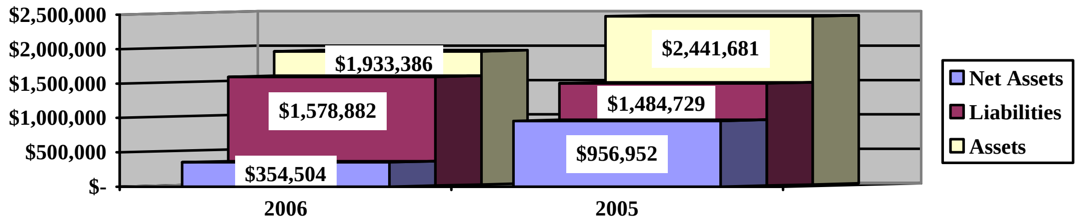
A portion of the Center's net assets, $160,695, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of $27,873 may be used to meet the Center's ongoing obligations to the students and creditors.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2006 and 2005.

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program Revenues:		
Charges for services and sales	$ 6,125,062	$ 6,100,244
Operating grants and contributions	907,847	934,619
General revenues:		
Grants and entitlements	1,224,443	1,621,928
Investment earnings	53,511	30,060
Other	73,080	22,257
Total revenues	8,383,943	8,709,108

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Expenses		
Program expenses:		
Instruction:		
Regular	$ 272,167	$ 330,084
Special	2,450,073	2,349,482
Adult	25,115	18,757
Support services:		
Pupil	1,868,073	1,873,172
Instructional staff	2,463,850	2,201,841
Board of education	46,124	45,469
Administration	1,103,296	1,123,768
Fiscal	373,050	350,337
Business	9,033	9,319
Operations and maintenance	40,059	66,030
Pupil transportation	241,140	197,428
Central	7,361	1,183
Food service operations	82,054	70,630
Other non-instructional services	-	1,144
Interest and fiscal charges	4,996	3,581
Total expenses	8,986,391	8,642,225
Extraordinary item		
Reimbursement of insurance claim	-	6,036
Change in net assets	(602,448)	72,919
Net assets at beginning of year	956,952	884,033
Net assets at end of year	$ 354,504	$ 956,952

Governmental Activities

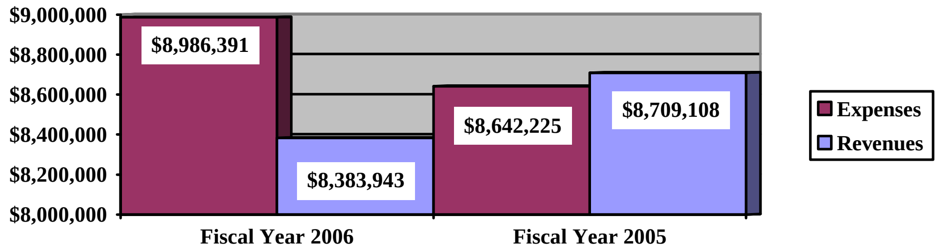
Net assets of the Center's governmental activities decreased $602,448. Total governmental expenses of $8,986,391 were offset by program revenues of $7,032,909, general revenues of $1,351,034. Program revenues supported 78.26% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales. These revenue sources represent 73.06% of total governmental revenue.

The largest expense of the Center is for support services. Support services expenses totaled $6,151,986 or 68.46% of total governmental expenses for fiscal year 2006.

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

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

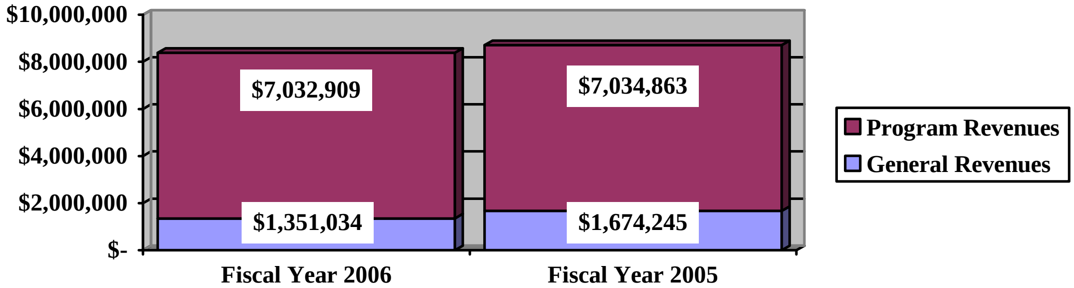
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	$ 272,167	$ (18,950)	$ 330,084	$ 37,550
Special	2,450,073	587,215	2,349,482	356,311
Adult	25,115	1,768	18,757	(6,904)
Support services:				
Pupil	1,868,073	373,936	1,873,172	293,049
Instructional staff	2,463,850	377,166	2,201,841	302,958
Board of education	46,124	46,124	45,469	45,469
Administration	1,103,296	211,637	1,123,768	179,187
Fiscal	373,050	304,248	350,337	301,380
Business	9,033	9,033	9,319	9,319
Operations and maintenance	40,059	17,775	66,030	47,363
Pupil transportation	241,140	36,621	197,428	6,588
Central	7,361	1,192	1,183	1,183
Food service operations	82,054	721	70,630	30,458
Other non-instructional services	-	-	1,144	(130)
Interest and fiscal charges	4,996	4,996	3,581	3,581
Total expenses	$ 8,986,391	$ 1,953,482	$ 8,642,225	$ 1,607,362

For all governmental activities, program revenue support is 78.26%. The primary support of the Center is contracted fees for services provided to other Districts.

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

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of $510,518 which is lower than last year's total of $1,099,983. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase	Percentage Change
General	$ 393,385	$ 946,268	$ (552,883)	(58.43) %
Miscellaneous State Grants	15,667	14,475	1,192	8.23 %
Other Governmental	101,466	139,240	(37,774)	(27.13) %
Total	$ 510,518	$ 1,099,983	$ (589,465)	(53.59) %

General Fund

The Center's general fund balance decreased $552,883. The decrease in fund balance can be attributed to several items related to revenues decreasing faster than expenditures. Expenditures exceed revenues for fiscal year 2006 by $552,883. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2006 Amount	2005 Amount	Increase (Decrease)	Percentage Change
Revenues				
Contract services	$ 5,237,640	$ 5,613,298	$ (375,658)	(6.69) %
Earnings on investments	55,154	27,817	27,337	98.27 %
Intergovernmental	1,224,443	1,621,928	(397,485)	(24.51) %
Other revenues	98,344	68,150	30,194	44.31 %
Total	$ 6,615,581	$ 7,331,193	$ (715,612)	(9.76) %
Expenditures				
Instruction	$ 2,429,753	$ 2,407,421	$ 22,332	0.93 %
Support services	4,719,850	4,741,609	(21,759)	(0.46) %
Capital outlay	-	60,321	(60,321)	(100.00) %
Debt service	18,861	12,786	6,075	47.51 %
Total	$ 7,168,464	$ 7,222,137	$ (53,673)	(0.74) %

Miscellaneous State Grant Fund

Another of the District's major governmental fund is the miscellaneous state grants fund. The miscellaneous state grants fund had $311,970 in revenues and $310,778 in expenditures. During fiscal year 2006, the miscellaneous state grants fund's fund balance increased $1,192 from $14,475 to $15,667.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the Center amended its general fund budget several times. For the general fund, original budgeted revenues were $7,280,700 and final budgeted revenues were $7,393,900. Actual revenues for fiscal year 2006 were $6,871,161. This represents a $522,739 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of $7,408,187 were increased to $7,412,837 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled $7,330,616, which was $82,221 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Center had $220,780 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2006 balances compared to 2005:

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2006	2005
Furniture and equipment	$ 215,115	$ 249,427
Vehicles	5,665	6,465
Total	$ 220,780	$ 255,892

The overall decrease in capital assets of $35,112 is due to depreciation expense of $47,384 and disposals of $1,648 (net of accumulated depreciation) exceeding capital outlays of $13,920 in the fiscal year.

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

Debt Administration

At June 30, 2006, the Center had $54,844 in capital lease obligations outstanding. Of this total, $15,015 is due within one year and $39,829 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
Capital lease obligations	$ 54,844	$ 68,709
Total	$ 54,844	$ 68,709

See Notes 8 and 9 to the basic financial statements for additional information on the Center's capital leases.

Current Financial Related Activities

The Center is financially solvent. As the preceding information shows, the Center relies heavily on contracts with local, city, and JVS school districts in Madison and Champaign Counties, as well as state foundation revenue and grants. The need for additional services from local and city school districts, along with the Center's cash balance, will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2007.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 1512 S. U.S. Highway 68, Urbana, Ohio 43078.

BASIC
FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	$ 1,273,099
Receivables:	
Accounts	186
Intergovernmental	436,920
Accrued interest	915
Prepayments	1,486
Capital assets:	
Depreciable capital assets, net	220,780
Capital assets, net.	220,780
Total assets.	1,933,386
Liabilities:	
Accounts payable.	26,272
Accrued wages and benefits	939,283
Pension obligation payable.	132,661
Intergovernmental payable.	65,918
Long-term liabilities:	
Due within one year.	56,459
Due in more than one year	358,289
Total liabilities	1,578,882
Net Assets:	
Invested in capital assets, net of related debt.	165,936
Restricted for:	
Locally funded programs.	768
State funded programs.	97,619
Federally funded programs	30,965
Other purposes	31,343
Unrestricted	27,873
Total net assets.	$ 354,504

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	$ 272,167	$ 141,299	$ 149,818	$ 18,950
Special	2,450,073	1,836,713	26,145	(587,215)
Adult.	25,115	-	23,347	(1,768)
Support services:				
Pupil.	1,868,073	1,490,885	3,252	(373,936)
Instructional staff	2,463,850	1,618,806	467,878	(377,166)
Board of education	46,124	-	-	(46,124)
Administration.	1,103,296	832,967	58,692	(211,637)
Fiscal.	373,050	25,775	43,027	(304,248)
Business.	9,033	-	-	(9,033)
Operations and maintenance	40,059	12,934	9,350	(17,775)
Pupil transportation.	241,140	116,535	87,984	(36,621)
Central	7,361	3,581	2,588	(1,192)
Operation of non-instructional services:				
Food service operations	82,054	45,567	35,766	(721)
Interest and fiscal charges	4,996	-	-	(4,996)
Total governmental activities	$ 8,986,391	$ 6,125,062	$ 907,847	(1,953,482)

General Revenues:	
Grants and entitlements not restricted to specific programs.	1,224,443
Investment earnings	53,511
Miscellaneous	73,080
Total general revenues.	1,351,034
Change in net assets.	(602,448)
Net assets at beginning of year	956,952
Net assets at end of year	$ 354,504

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash				
and cash equivalents	$ 1,070,685	$ -	$ 202,414	$ 1,273,099
Receivables:				
Accounts	186	-	-	186
Accrued interest	915	-	-	915
Intergovernmental	205,238	187,441	44,241	436,920
Due from other funds	122,231	-	-	122,231
Prepayments	1,486	-	-	1,486
Total assets	$ 1,400,741	$ 187,441	$ 246,655	$ 1,834,837
Liabilities:				
Accounts payable	$ 10,426	$ 15,846	$ -	$ 26,272
Accrued wages and benefits	812,370	11,405	115,508	939,283
Compensated absences payable	10,242	-	-	10,242
Pension obligation payable.	115,897	1,803	14,961	132,661
Intergovernmental payable.	58,034	949	6,935	65,918
Due from other funds	-	118,393	3,838	122,231
Deferred revenue.	387	23,378	3,947	27,712
Total liabilities	1,007,356	171,774	145,189	1,324,319
Fund Balances:				
Reserved for encumbrances	22,670	36,674	43,558	102,902
Reserved for prepayments	1,486	-	-	1,486
Unreserved, undesignated (deficit), reported in:				
General fund	369,229	-	-	369,229
Special revenue funds.	-	(21,007)	57,908	36,901
Total fund balances	393,385	15,667	101,466	510,518
Total liabilities and fund balances	$ 1,400,741	$ 187,441	$ 246,655	$ 1,834,837

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

Total governmental fund balances		$ 510,518
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		220,780
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental revenue	$ 27,325	
Accrued interest	387	
Total		27,712
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(349,662)	
Capital lease obligation	(54,844)	
Total		(404,506)
Net assets of governmental activities		$ 354,504

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Tuition	$ 25,264	$ -	$ 188,441	$ 213,705
Charges for services	-	-	45,567	45,567
Earnings on investments	55,154	-	-	55,154
Transportation fees	-	-	105,483	105,483
Classroom materials and fees	-	-	28,816	28,816
Other local revenues	73,080	-	325,698	398,778
Contract service revenue	5,237,640	-	168,153	5,405,793
Intergovernmental - Intermediate	-		15,347	15,347
Intergovernmental - State	1,224,443	311,970	401,950	1,938,363
Intergovernmental - Federal	-	-	151,255	151,255
Total revenue	6,615,581	311,970	1,430,710	8,358,261
Expenditures:				
Current:				
Instruction:				
Regular	9,252	-	255,481	264,733
Special	2,420,501	-	28,853	2,449,354
Adult	-	-	24,985	24,985
Support services:				
Pupil	1,720,332	-	143,614	1,863,946
Instructional staff	1,635,622	287,308	528,078	2,451,008
Board of education	45,779	-	-	45,779
Administration	970,172	-	110,719	1,080,891
Fiscal	306,318	23,470	41,705	371,493
Business	9,033	-	-	9,033
Operations and maintenance	16,190	-	23,566	39,756
Pupil transportation	15,457	-	223,015	238,472
Central	947	-	6,414	7,361
Operation of non-instructional services:				
Food service operations	-	-	82,054	82,054
Debt service:				
Principal retirement	13,865	-	-	13,865
Interest and fiscal charges	4,996	-	-	4,996
Total expenditures	7,168,464	310,778	1,468,484	8,947,726
Net change in fund balances	(552,883)	1,192	(37,774)	(589,465)
Fund balances at beginning of year	946,268	14,475	139,240	1,099,983
Fund balances at end of year	$ 393,385	$ 15,667	$ 101,466	$ 510,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

Net change in fund balances - total governmental funds		$	(589,465)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current period.			
Capital asset additions	13,920		
Current year depreciation	(47,384)		
Total			(33,464)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.			(1,648)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			25,682
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			13,865
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			(17,418)
Change in net assets of governmental activities		$	(602,448)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Tuition	$ 42,145	$ 42,800	$ 28,391	$ (14,409)
Earnings on investments	34,464	35,000	58,364	23,364
Other local revenues	25,503	25,900	73,499	47,599
Contract service revenue	5,775,404	5,865,200	5,437,533	(427,667)
Intergovernmental - State	1,255,480	1,275,000	1,224,443	(50,557)
Intergovernmental - Federal	147,704	150,000	47,780	(102,220)
Total revenue	7,280,700	7,393,900	6,870,010	(523,890)
Expenditures:				
Current:				
Instruction:				
Regular	47,950	47,980	47,543	437
Special	2,570,565	2,572,178	2,576,610	(4,432)
Support services:				
Pupil	1,782,822	1,783,941	1,718,893	65,048
Instructional staff	1,611,932	1,612,944	1,647,130	(34,186)
Board of education	38,962	38,986	31,511	7,475
Administration	959,152	959,754	963,299	(3,545)
Fiscal	308,394	308,588	275,959	32,629
Business	11,040	11,047	9,258	1,789
Operations and maintenance	6,416	6,420	43,374	(36,954)
Pupil transportation	20,036	20,049	14,485	5,564
Central	1,249	1,250	947	303
Extracurricular activities	700	700	456	244
Total expenditures	7,359,218	7,363,837	7,329,465	34,372
Excess of revenues over (under) expenditures	(78,518)	30,063	(459,455)	(489,518)
Other financing sources (uses):				
Transfers in	-	-	1,151	1,151
Transfers out	(48,969)	(49,000)	(1,151)	47,849
Total other financing uses	(48,969)	(49,000)	-	49,000
Net change in fund balance	(127,487)	(18,937)	(459,455)	(440,518)
Fund balance at beginning of year	1,606,296	1,606,296	1,606,296	-
Prior year encumbrances appropriated	18,075	18,075	18,075	-
Fund balance at end of year	$ 1,496,884	$ 1,605,434	$ 1,164,916	$ (440,518)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

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

	Budgeted Amounts			Variance with Final Budget
	Original	**Final**	**Actual**	**Positive (Negative)**
Revenues:				
From local sources:				
Intergovernmental - State	$ 284,000	$ 284,000	$ 147,907	$ (136,093)
Total revenue	284,000	284,000	147,907	(136,093)
Expenditures:				
Current:				
Support services:				
Instructional staff	342,619	361,209	344,681	16,528
Fiscal	22,329	23,470	23,470	-
Total expenditures	364,948	384,679	368,151	16,528
Net change in fund balance	(80,948)	(100,679)	(220,244)	(119,565)
Fund balance at beginning of year	16,714	16,714	16,714	-
Prior year encumbrances appropriated	32,617	32,617	32,617	-
Fund balance (deficit) at end of year	$ (31,617)	$ (51,348)	$ (170,913)	$ (119,565)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	$ 45,774
Total assets.	$ 45,774
Liabilities:	
Due to other governments.	$ 45,774
Total liabilities	$ 45,774

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative, and other services to the Graham, Jefferson, Jonathan Alder, Madison Plains, West Liberty-Salem, Triad Local, London and Urbana City school districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 128 non-certified employees and 94 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization
The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO 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. This organization is governed by a board of directors consisting of 14 members; the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney Ohio 45365.

Metropolitan Educational Council
The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the MEC. The governing board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council. Elmo Kallner, who serves as Executive Director, 2100 Citygate Drive, Columbus, Ohio 43219.

Southwestern Ohio Instructional Technology Association
The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the education needs of the area through television programming for the advancement of educational programs. The Board of Trustees is elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

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

West Central Ohio Special Educational Regional Resource Center
The West Central Ohio Special Educational Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326-2385.

Central Ohio Special Educational Regional Resource Center
The Central Ohio Special Educational Regional Resource Center (COSERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The COSERRC is governed by a sixty member board consisting of the superintendent from the sixty participating members. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Melissa Shultz, Franklin County Educational Service Center, 2080 Citygate Drive, Columbus, Ohio 43219.

Ohio ESC MAC Consortium
The Center is a participant in the Ohio ESC MAC Consortium (OEMC). OEMC was formed for the purpose of accessing Medicaid Reimbursements for Special Education. OEMC is a Consortium of seven educational service centers. The Consortium has entered into an agreement with Meccatech, Inc. to provide assistance in the form of software systems, consulting, advocacy, data collection, and data processing.

PUBLIC ENTITY PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Program
The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating schools ESC's pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235. The intent of the Program is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Program. 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 workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Program.

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

<u>Champaign, Delaware, Marion, Union Schools Insurance Consortium (CDMU)</u>
CDMU sponsors self-insured medical plans for nine (9) school districts, educational service centers and Board of Education primarily within Champaign, Delaware, Marion, and Union Counties. These plans are for active employees and their covered dependents. Amongst the nine (9) districts and service centers, there were three (3) plans/plan options offered to active employees and their dependents during the period under review. CDMU has contracted with Core Source for all administrative, claims processing, claims payment, and customer service at Core Source's Dublin, Ohio facility.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

<u>*Miscellaneous State Grants Fund*</u> - The miscellaneous state grants fund is used to account for various monies received from state agencies which are not classified elsewhere.

Other governmental funds of the Center are used to account for all financial resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The Center has no trust funds. The Center's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for monies due to other governments.

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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.

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

E. Budgetary Basis

The 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 Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

The 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 level for all funds. Although the legal level of budgetary control was established at the fund level of expenditures, the Center has elected to present budgetary statement comparisons at the fund and function level of expenditures.

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

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

F. Cash and Investments

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), and Federal agency securities. Investments are reported at fair market value.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2006 amounted to $55,154, which includes $7,181 assigned from other funds.

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

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

G. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization policy of not capitalizing assets with a cost of less than $500 and a useful life of less than one year. 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. The Center does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Furniture and equipment	7 - 20 years
Vehicles	10 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from negative cash balances in certain funds (see Note 3.B and Note 5) are classified as "due to/due from other funds." These amounts are eliminated in the governmental activities column on the statement of net asset.

I. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and instructional expenditures on the financial statements. For fiscal year 2006, these activities included the Preschool Handicapped special revenue fund (a nonmajor governmental fund).

J. Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee's salaries are paid.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special item or extraordinary.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

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

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

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

B. Deficit Fund Balance

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

	Deficit
Nonmajor Funds	
Management Information Systems	$ 46
School Bus Driver Training	17,461
Entry Year	12
Alternative Schools	7,669
EHA Preschool Grant	75

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments for accrued liabilities. The Title VI-B and miscellaneous state grants funds had cash basis deficits at fiscal year-end. An interfund liability has been recorded to cover these negative cash balances (see Note 5).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the Center had $600 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all the Center deposits was $509,289. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, $431,903 of the Center's bank balance of $637,382 was exposed to custodial risk as discussed below, while $205,479 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

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

		Investment Maturities			
Investment type	Fair Value	6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
STAR Ohio	$ 214,573	$ 214,573	$ -	$ -	$ -
FHLMC	253,504	-	99,740	153,764	-
FFCB	49,047	-	49,047	-	-
FNMA	291,860	-	-	-	291,860
	$ 808,984	$ 214,573	$ 148,787	$ 153,764	$ 291,860

The weighted average maturity of investments is 1.03 years.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Investment type	Fair Value	% to Total
STAR Ohio	$ 214,573	26.52
FHLMC	253,504	31.34
FFCB	49,047	6.06
FNMA	291,860	36.08
Total	$ 808,984	100.00

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

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

Cash and investments per footnote	
Carrying amount of deposits	$ 509,289
Investments	808,984
Cash on hand	600
Total	$ 1,318,873
Cash and investments per Statement of Net Assets	
Governmental activities	$ 1,273,099
Agency funds	45,774
Total	$ 1,318,873

NOTE 5 - INTERFUND TRANSACTIONS

At June 30, 2006, certain funds had negative cash balances. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

	Due from Other Funds	Due to Other Funds
General Fund	$ 122,231	$ -
Special Revenue Funds		
Title VI - B	-	3,838
Miscellaneous State Grants	-	118,393
Total	$ 122,231	$ 122,231

Amounts due to/from other funds between governmental funds have been eliminated for reporting on the government-wide statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Accounts	$ 186
Accrued interest	915
Intergovernmental	436,920
Total	$ 438,021

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

NOTE 7 - CAPITAL ASSETS

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

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
Governmental Activities				
Capital assets, being depreciated:				
Furniture and equipment	$ 484,674	$ 13,920	$ (24,038)	$ 474,556
Vehicles	25,997	-	-	25,997
Total capital assets, being depreciated	510,671	13,920	(24,038)	500,553
Less: accumulated depreciation				
Furniture and equipment	(235,247)	(46,584)	22,390	(259,441)
Vehicles	(19,532)	(800)	-	(20,332)
Total accumulated depreciation	(254,779)	(47,384)	22,390	(279,773)
Governmental activities capital assets, net	$ 255,892	$ (33,464)	$ (1,648)	$ 220,780

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 2,934
Special	9,727
Adult	130
Support Services:	
Pupil	3,175
Instructional staff	2,939
Board of Education	345
Administration	24,459
Fiscal	1,855
Operations and Maintenance	303
Pupil Transportation	1,517
Total depreciation expense	$ 47,384

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the Center entered into capital lease agreements for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets acquired by lease have been capitalized in the amount of $77,914, which is equal to the present value of the future minimum payments as of the date of their inception. Accumulated depreciation as of June 30, 2006 was $23,374 leaving a current book value of $54,540. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets. Principal payments in fiscal year 2006 totaled $13,865 paid by the general fund.

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

Year Ending June 30	Equipment
2007	$ 18,861
2008	18,861
2009	18,861
2010	6,075
Total future minimum lease payments	62,658
Less: amount representing interest	(7,814)
Present value of future minimum lease payment	$ 54,844

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:					
Compensated absences	$ 332,244	$ 52,257	$ (24,597)	$ 359,904	$ 41,444
Capital lease	68,709	-	(13,865)	54,844	15,015
Total long-term obligations, governmental activities	$ 400,953	$ 52,257	$ (38,462)	$ 414,748	$ 56,459

Compensated absences will ultimately be paid from the fund from which the employee is paid. See Note 8 for detail on the capital lease obligation.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation time does not carry beyond the contract year in which it is earned. Accumulated unused vacation time is paid to twelve month employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, employees with five to ten years of service are paid for one-fifth of accrued, but unused sick leave credit to a maximum of forty days, and employees with over ten years of service are paid for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Center contracted for the following insurance coverages:

Coverages provided by Harcum-Hyre Insurance are as follows:

Building and contents - replacement cost	$1,000,000
Automobile liability	1,000,000
General liability	
Per occurrence	1,000,000
Aggregate	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Health Care Benefits

The Center provides health insurance and prescription drug benefits through CoreSource. Vision insurance is provided through Vision Service Plan, dental insurance through Anthem Blue Cross Blue Shield, and life insurance through CoreSource, Anthem Blue Cross Blue Shield, and Community National Assurance. Insurance premiums vary with each employee depending on marital and family status.

C. Workers' Compensation

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

NOTE 12 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were $182,280, $172,406, and $127,008; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

B. State Teachers Retirement System

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

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

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

NOTE 12 - PENSION PLANS - (Continued)

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

The Center's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were $503,920, $525,255 and $567,890; 100 percent has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were $13,692 made by the Center and $32,756 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board have elected Social Security. The Center's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $38,763 for fiscal year 2006.

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Center paid $83,573 to fund health care benefits, including the surcharge.

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

(b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	General Fund	Miscellaneous State Grants
Budget basis	$ (459,455)	$ (220,244)
Net adjustment for revenue accruals	(254,429)	164,063
Net adjustment for expenditure accruals	127,905	4,853
Adjustment for encumbrances	33,096	52,520
GAAP basis	$ (552,883)	$ 1,192

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is involved in no material litigation as either plaintiff or defendant.

NOTE 16 - STATE FUNDING

The Center is funded by the State Board of Education from state funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: $6.50 times the Average Daily Membership (ADM- the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the state's foundation program. Simultaneously, $37.00 times the sum of the ADM is paid by the State Board of Education from state funds to the Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of $43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

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

Governing Board
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center (the "Center"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Center in a separate letter dated December 20, 2006.

Governing Board
Madison-Champaign Educational Service Center

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Board of the Center and is not intended to be and should not be used by anyone other than these specified parties.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 20, 2006

Mary Taylor, CPA
Auditor of State

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2007

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