



*PICKAWAY COUNTY EDUCATIONAL
SERVICE CENTER*

REGULAR AUDIT

For the Fiscal Year Ended June 30, 2006

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Mary Taylor, CPA
Auditor of State

Board of Education
Pickaway County Educational Service Center
2050 Stoneridge Drive
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the Pickaway County Educational Service Center, Pickaway County, prepared by J.L. Uhrig and Associates, 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 Pickaway County Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 6, 2007

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PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER

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Independent Auditor's Report

Board of Education
Pickaway County Educational Service Center
2050 Stoneridge Drive
Circleville, OH 43313

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

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 Service Center as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended June 30, 2006, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2006 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report when considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

December 18, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Pickaway County Educational Service Center's (the Center) discussion and analysis of the annual financial report provides a review of the financial performance 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 notes to the basic financial statements and financial statements to enhance their understanding of the Center's financial performance.

FINANCIAL HIGHLIGHTS

- The Center's assets exceeded its liabilities at June 30, 2006 by \$1,034,868.
- The Center's net assets of governmental activities increased \$138,601.
- General revenues accounted for \$549,601 in revenue or 19 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$2,321,866 or 81 percent of total revenues of \$2,871,467.
- The Center had \$2,732,866 in expenses related to governmental activities; \$2,321,866 of these expenses were offset by program specific revenues.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Center's financial situation as a whole and also give a detailed view of the Center's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the Center as a whole and present a longer-term view of the Center's 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 the amount of funds available for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column.

REPORTING THE CENTER AS A WHOLE

The analysis of the Center as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the Center is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Center's net assets and changes to those assets. This change informs the reader whether the Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the Center's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the Center has only one kind of activity.

- Governmental Activities. Most of the Center's programs and services are reported here including support services, operation and maintenance of capital assets, and pupil transportation.

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

REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Center's funds begins on page 6. Fund financial statements provide detailed information about the Center's major funds – not the Center as a whole. Some funds are required by State law. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Center is meeting legal responsibilities for use of grants. The Center's major funds are the General Fund and the Pass Fund.

Governmental Funds. All 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 the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Reporting the Center's Fiduciary Responsibilities. The Center acts in trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

THE CENTER AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the Center as a whole. Table 1 provides a summary of the Center's net assets for 2006 compared to 2005.

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets:		
Current Assets	\$570,952	\$436,847
Capital Assets, Net	760,862	764,800
Total Assets	1,331,814	1,201,647
Liabilities:		
Current and Other Liabilities	189,593	186,762
Long-Term Liabilities	107,353	118,618
Total Liabilities	296,946	305,380
Net Assets:		
Invested in Capital Assets, Net of Related Debt	760,862	764,800
Restricted	59,839	78,662
Unrestricted	214,167	52,805
Total Net Assets	\$1,034,868	\$896,267

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

Total net assets of the Center as a whole increased \$138,601. The significant changes to cash and unrestricted net assets are due to the increase in revenue and decrease in expenditures in 2006.

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

Table 2 Changes in Net Assets Governmental Activities		
	2006	2005
Revenues		
Program Revenues:		
Charges for Services and Sales	\$1,679,776	\$1,362,913
Operating Grants & Contributions	642,090	641,543
Total Program Revenues	2,321,866	2,004,456
General Revenues:		
Grants and Entitlements	529,395	782,887
Investment Earnings	7,560	6,510
Gifts and Donations	3,618	2,574
Miscellaneous	9,028	11,312
Gain on Sale of Capital Assets	0	26,124
Total General Revenues	549,601	829,407
Total Revenues	2,871,467	2,833,863
Program Expenses		
Instruction		
Regular	195,673	227,921
Special	89,340	79,025
Adult/Continuing	144,056	142,402
Support Services		
Pupils	1,082,749	1,100,572
Instructional Staff	610,933	596,302
Board of Education	43,313	22,491
Administration	238,632	312,829
Fiscal	99,115	94,379
Business	10,235	11,829
Operation and Maintenance of Plant	87,479	49,372
Central	131,341	116,502
Total Expenses	2,732,866	2,753,624
Increase in Net Assets	138,601	80,239
Net Assets at Beginning of Year	896,267	816,028
Net Assets at End of Year	\$1,034,868	\$896,267

Governmental Activities

Charges for services and sales comprised 59 percent of revenue for governmental activities, while operating grants and contributions comprised 22 percent of revenue for governmental activities of the Center for fiscal year 2006.

As indicated by governmental program expenses, support services are emphasized. Support services for pupils comprised 40 percent of governmental program expenses with support services for instructional staff comprising 22 percent of governmental expenses.

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

The Statement of Activities shows the cost of program services and the charges for services and sales and operating grants and contributions offsetting those services. Table 3 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 general revenues of the Center.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$429,069	(\$98,730)	\$449,348	\$35,723
Support Services	2,303,797	509,730	2,304,276	713,445
Total Expenses	<u>\$2,732,866</u>	<u>\$411,000</u>	<u>\$2,753,624</u>	<u>\$749,168</u>

THE CENTER'S FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,871,467 and expenditures of \$2,740,193. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund increased \$150,234. This increase was due to expenditures for capital outlay being approximately \$700,000 less than in the prior year which was partially offset by decreases in intergovernmental revenue and proceeds from the sale of capital assets. The Pass Fund had \$102,625 in revenues and \$114,565 in expenditures resulting in an \$11,940 decrease in fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the Center had \$760,862 invested in its capital assets. Table 4 shows the fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Accumulated Depreciation)
Governmental Activities

	2006	2005
Land	\$66,900	\$66,900
Land Improvements	19,008	0
Buildings	646,117	662,979
Furniture and Equipment	28,837	34,921
Totals	<u>\$760,862</u>	<u>\$764,800</u>

Changes in capital assets from the prior year resulted from the Center purchasing gravel for the back parking lot, some smaller capital asset additions and current year depreciation expense. See Note 4 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2006, the Center had no outstanding debt obligations.

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

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Center's financial condition and to show the Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shannon Clark, Treasurer, Pickaway County Educational Service Center, 2050 Stoneridge Drive, Circleville, Ohio 43113.

Pickaway County Educational Service Center
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 542,039
Accrued Interest Receivable	606
Accounts Receivable	12,967
Intergovernmental Receivable	15,340
Noncurrent Assets:	
Non-Depreciable Capital Assets	66,900
Depreciable Capital Assets, net	693,962
<i>Total Assets</i>	1,331,814
LIABILITIES:	
Current Liabilities:	
Accounts Payable	1,423
Accrued Wages and Benefits	125,527
Intergovernmental Payable	62,643
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due within One Year	12,141
Due in More Than One Year	95,212
<i>Total Liabilities</i>	296,946
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	760,862
Restricted for Other Purposes	59,839
Unrestricted	214,167
<i>Total Net Assets</i>	\$ 1,034,868

The notes to the basic financial statements are an integral part of this statement.

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

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 195,673	\$ 43,022	\$ 146,006	\$ (6,645)
Special	89,340	60,234	143,533	114,427
Adult/Continuing	144,056	21,557	113,447	(9,052)
Support Services:				
Pupils	1,082,749	816,450	17,806	(248,493)
Instructional Staff	610,933	390,717	99,202	(121,014)
Board of Education	43,313	33,090	-	(10,223)
Administration	238,632	174,875	8,140	(55,617)
Fiscal	99,115	70,491	6,105	(22,519)
Business	10,235	6,593	1,526	(2,116)
Operation and Maintenance of Plant	87,479	43,027	2,544	(41,908)
Central	131,341	19,720	103,781	(7,840)
<i>Total Governmental Activities</i>	<u>2,732,866</u>	<u>1,679,776</u>	<u>642,090</u>	<u>(411,000)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				529,395
Gifts and Donations not Restricted to Specific Programs				3,618
Investment Earnings				7,560
Miscellaneous				9,028
<i>Total General Revenues</i>				<u>549,601</u>
<i>Change in Net Assets</i>				138,601
<i>Net Assets Beginning of Year</i>				<u>896,267</u>
<i>Net Assets End of Year</i>				<u><u>\$ 1,034,868</u></u>

The notes to the basic financial statements are an integral part of this statement.

Pickaway County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Pass	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 479,318	\$ 17,901	\$ 44,820	\$ 542,039
Accrued Interest Receivable	606	-	-	606
Accounts Receivable	3,970	7,400	1,597	12,967
Interfund Receivable	15,328	-	-	15,328
Intergovernmental Receivable	-	-	15,340	15,340
<i>Total Assets</i>	<u>499,222</u>	<u>25,301</u>	<u>61,757</u>	<u>586,280</u>
LIABILITIES:				
Accounts Payable	373	-	1,050	1,423
Accrued Wages and Benefits	104,426	20,507	594	125,527
Interfund Payable	-	-	15,328	15,328
Intergovernmental Payable	48,836	5,573	8,234	62,643
<i>Total Liabilities</i>	<u>153,635</u>	<u>26,080</u>	<u>25,206</u>	<u>204,921</u>
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	5,257	-	23,487	28,744
Unreserved, Undesignated, Reported in:				
General Fund	340,330	-	-	340,330
Special Revenue Funds	-	(779)	13,064	12,285
<i>Total Fund Balances</i>	<u>345,587</u>	<u>(779)</u>	<u>36,551</u>	<u>381,359</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 499,222</u>	<u>\$ 25,301</u>	<u>\$ 61,757</u>	<u>\$ 586,280</u>

The notes to the basic financial statements are an integral part of this statement.

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

Total Governmental Fund Balances	\$	381,359
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		760,862
Long-Term Liabilities, including the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(107,353)	
Total		<u>(107,353)</u>
Net Assets of Governmental Activities	\$	<u>1,034,868</u>

The notes to the basic financial statements are an integral part of this statement.

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

	<u>General Fund</u>	<u>Pass</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Intergovernmental	\$ 662,753	\$ 40,000	\$ 468,730	\$ 1,171,483
Program Services	1,557,187	-	28,877	1,586,064
Interest	7,560	-	-	7,560
Tuition and Fees	-	62,625	-	62,625
Charges for Services	17,622	-	12,567	30,189
Gifts and Donations	3,618	-	-	3,618
Rent	900	-	-	900
Miscellaneous	7,431	-	1,597	9,028
<i>Total Revenues</i>	<u>2,257,071</u>	<u>102,625</u>	<u>511,771</u>	<u>2,871,467</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	11,241	114,565	66,957	192,763
Special	75,988	-	12,956	88,944
Adult/Continuing	200	-	141,806	142,006
Support Services:				
Pupils	1,066,684	-	22,585	1,089,269
Instructional Staff	487,574	-	124,284	611,858
Board of Education	43,313	-	-	43,313
Administration	229,471	-	10,228	239,699
Fiscal	90,842	-	7,800	98,642
Business	8,235	-	2,000	10,235
Operation and Maintenance of Plant	54,899	-	3,000	57,899
Central	950	-	130,240	131,190
Capital Outlay	34,375	-	-	34,375
<i>Total Expenditures</i>	<u>2,103,772</u>	<u>114,565</u>	<u>521,856</u>	<u>2,740,193</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>153,299</u>	<u>(11,940)</u>	<u>(10,085)</u>	<u>131,274</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	3,065	3,065
Transfers Out	(3,065)	-	-	(3,065)
<i>Total Other Financing Sources and Uses</i>	<u>(3,065)</u>	<u>-</u>	<u>3,065</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	150,234	(11,940)	(7,020)	131,274
<i>Fund Balances at Beginning of Year</i>	<u>195,353</u>	<u>11,161</u>	<u>43,571</u>	<u>250,085</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 345,587</u>	<u>\$ (779)</u>	<u>\$ 36,551</u>	<u>\$ 381,359</u>

The notes to the basic financial statements are an integral part of this statement

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

Net Change in Fund Balances - Total Governmental Funds \$ 131,274

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

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

Capital Asset Additions	34,910	
Current Year Depreciation	(38,848)	
Total	(3,938)	(3,938)

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

Decrease in Compensated Absences	11,265	
Total	11,265	11,265

Net Change in Net Assets of Governmental Activities \$ 138,601

The notes to the basic financial statements are an integral part of this statement.

Pickaway County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 13,572</u>
Total Assets	<u><u>\$ 13,572</u></u>
Liabilities	
Undistributed Monies	<u>\$ 13,572</u>
Total Liabilities	<u><u>\$ 13,572</u></u>

The notes to the basic financial statements are an integral part of this statement.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY

The financial statements of the Pickaway County Educational Service Center (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:

Description of the Entity:

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a County School District as defined by Section 313 of the Ohio Revised Code (ORC).

The Center is governed by a five member Governing Board elected by the citizens of Pickaway County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves local school districts: Logan Elm Local, Teays Valley Local, and Westfall Local as provided by Senate Bill 140, ORC Section 3313.483. Circleville City School District and other school districts outside Pickaway County are served on an individual contract basis for various services.

Reporting Entity:

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the 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.

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 organization's governing 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; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations for which the Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2006, the Center had no component units.

The Center is associated with four jointly governed organizations, one joint venture, and two insurance purchasing pools. These organizations are South Central Ohio Computer Association, Pickaway-Ross Joint Vocational School District, School Study Council of Ohio, Central Ohio Special Education Regional Resource Center, the Pickaway County Alternative School for Success, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are discussed in Notes 10, 11 and 15.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

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 more significant of the Center's accounting policies are described below.

The Center's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Center functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Center's major governmental funds:

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

Pass Fund - The Pass Fund (Pickaway County Alternative School for Success) is a fund that is utilized to record receipts and disbursement of a joint venture in which the Pickaway ESC is the fiscal agent.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The Center's only fiduciary funds are agency funds which are used to maintain financial activity of the Center's Workers' Compensation activity and School Employees Retirement System activity.

B. Basis of Presentation

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

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

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

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

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. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants 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 non-exchange transactions must also be available before it can be recognized.

The modified accrual basis is utilized for reporting purposes by the governmental fund types. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest, grants, tuition and fees.

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

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

D. Budgetary Process

Although not legally required, 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.

In fiscal year 2004, the Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated revenues. 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. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Center is pooled. 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 balance sheet.

During fiscal year 2006, investments were limited to STAR Ohio.

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.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents (Continued)

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$7,560.

For presentation on the balance sheet, 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.

F. Capital Assets and Depreciation

All capital assets of the Center are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$300. The Educational Service Center does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	30 years
Furniture and Equipment	5-10 years

G. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or good received are classified as "Due to/from Other Funds." Also, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

H. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and the funding is available.

I. Interfund Transactions

During the course of normal operations the Center had transactions between funds. The most significant included routine transfers of resources, from one fund to another fund, through which resources to be expended are recorded as transfers. These transactions are eliminated in the governmental activities column of the statement of activities.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's right to receive compensation is attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payments.

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records all liability for accumulated unused sick leave for classified employees after 10 years of current service with the Center and for certified employees and administrators after 10 years of service.

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

On the 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. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

K. 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, once incurred, that are paid in full and in a timely manner from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds upon the occurrence of employee resignations and retirements are reported as a liability in the fund financial statements. The Center had long-term obligations at June 30, 2006 as disclosed in Note 5.

L. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represent balances in special revenue funds for grants whose use is restricted by grant agreements.

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

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

N. Estimates

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

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Equity in Pooled Cash and Cash Equivalents." 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 Center has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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 or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the Center's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Center's total average portfolio.

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.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by federal depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$399,561 of the Center's bank balance of \$499,561 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

	Fair/Carrying Value	Weighted Maturity (in years)
STAR Ohio	149,557	< 1 Year

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting its investment portfolio to STAR Ohio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Center limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Center's investment policy allows investments in STAR Ohio Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The Center has invested 100% of its investments in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance <u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>6/30/2006</u>
<i>Governmental Activities:</i>				
Capital Assets Not Being Depreciated				
Land	\$66,900	\$0	\$0	\$66,900
Total Capital Assets, Not Being Depreciated	<u>66,900</u>	<u>0</u>	<u>0</u>	<u>66,900</u>
Capital Assets Being Depreciated				
Land Improvements	0	19,330	0	19,330
Building	685,100	6,174	0	691,274
Furniture and Equipment	369,084	9,406	0	378,490
Total Capital Assets, Being Depreciated	<u>1,054,184</u>	<u>34,910</u>	<u>0</u>	<u>1,089,094</u>
Less Accumulated Depreciation				
Land Improvements	0	(322)	0	(322)
Building	(22,121)	(23,036)	0	(45,157)
Furniture and Equipment	(334,163)	(15,490)	0	(349,653)
Total Accumulated Depreciation	<u>(356,284)</u>	<u>(38,848)</u>	<u>0</u>	<u>(395,132)</u>
Total Capital Assets, Being Depreciated Net	<u>697,900</u>	<u>(3,938)</u>	<u>0</u>	<u>693,962</u>
Governmental Activities Capital Assets, Net	<u>\$764,800</u>	<u>(\$3,938)</u>	<u>\$0</u>	<u>\$760,862</u>

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation Expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,910
Special	396
Adult/Continuing	2,050
Support Services:	
Pupils	467
Instructional Staff	1,614
Administration	1,543
Operation and Maintenance of Plant	29,580
Central	<u>288</u>
Total Depreciation Expense	<u>\$38,848</u>

NOTE 5 - LONG-TERM LIABILITIES

The changes in the Center's long-term liabilities during fiscal year 2006 were as follows:

	Balance at 6/30/05	Increase	Decrease	Balance at 6/30/06	Due within one year
Compensated Absences	\$118,618	\$107,353	\$118,618	\$107,353	\$12,141

NOTE 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides 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 report that includes financial statements and required supplementary information for SERS. That report may be obtained by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$53,097, \$53,061, and \$32,373, respectively; 72 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$14,993 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds.

This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefits Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3007 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$281,471 \$303,660, and \$269,775, respectively; 88 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$34,079 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

NOTE 7 - 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 Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll.

The STRS board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2006, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$2,474. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005 (the latest available).

STRS pays health care benefits from the Health Care Reserve Fund. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 3.42 percent. 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. 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. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$14,583.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the latest available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which was about 168 percent of the next year's projected net health care costs of \$158,776,151. 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. The number of participants eligible to receive benefits is 58,123.

NOTE 8- RISK MANAGEMENT

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 with Hastings Mutual Insurance Company for general property insurance. The coverage has a \$1,000 deductible with replacement cost coverage of \$1,444,000.

During fiscal year 2006, the Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchase pool. Each individual school district and educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. The center pays this annual premium to OSP. (See Note 15.)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
Employee's Benefits Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8- RISK MANAGEMENT (Continued)

Public officials' bond insurance is provided by The Travelers Casualty and Surety Company of America. The Treasurer is covered by a bond in the amount of \$50,000. The Board President, Vice-President and Superintendent are covered by bonds in the amount of \$20,000. The Pre-Service Instructor is covered by a bond in the amount of \$10,000. Three Secretaries are covered by bonds in the amount of \$5,000 each.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2006, the Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 15). 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 Centers is calculated as one experience and a common premium rate is applied to all Centers 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 Centers that can meet the GRP's selection criteria. The firm of Sheakley Unicom, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 9 – INTERFUND TRANSACTIONS

Interfund Payables/Receivables

At June 30, 2006, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	<u>Receivables</u>	<u>Payables</u>
Major Fund:		
General Fund	\$15,328	\$0
Non-Major Funds:		
Family Literacy	-	851
2005/2006 Abuse	-	1,107
2005/2006 Ace	-	13,370
Total Non-Major Funds	-	15,328
Total	\$15,328	\$15,328

The general fund made advances to other funds of the Center in anticipation of grant monies to be received by those funds.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Transfers made during the year ended June 30, 2006 were as follows:

Major Fund:	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$3,065	\$0
Non-Major Special Revenue Fund:		
2005/2006 Abuse	-	3,065
Total	<u>\$3,065</u>	<u>\$3,065</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Vinton, Jackson and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the eight participating counties, two school treasurers, and a representative for the fiscal agent. SCOCA is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Central Ohio Special Education Regional Resource Center (COSERRC) – The Pickaway County Educational Service Center passes a motion each year to become a member of COSERRC. The superintendent of the Center is appointed by the Pickaway County Educational Service Center to be a delegate to the Governing Board. COSERRC provides education services at a regional level, as determined by each of the participating school districts.

The Center has no ongoing financial interest or financial responsibility to COSERRC.

Pickaway-Ross Joint Vocational School – The Pickaway County Educational Service Center is a distinct political subdivision of the State of Ohio. The Pickaway-Ross Joint Vocational School District has an eleven-member board of education. The Center has three board members as representatives to the Pickaway-Ross Joint Vocational School District Board. The Pickaway-Ross Joint Vocational School District possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross Joint Vocational School District, 895 Crouse Chapel Road, Chillicothe, Ohio 45601-9010.

The Center has no ongoing financial interest or financial responsibility to the Pickaway-Ross Joint Vocational School District.

School Study Council of Ohio (SSCO) – The School Study Council of Ohio (SSCO), created in 1965, is a non-profit consortium of forty-eight school districts, eleven educational service centers, five colleges of education, and eight related educational schools and agencies from thirty counties. It is owned and governed by the member organizations with the Board of Trustees representing member organizations. The District’s Superintendent represents the District on the Board of Trustees. Their mission is to enable district improvement through planning assistance, professional development, funding and related resource acquisition, research, system assessment and impact evaluation, leadership development, and other personalized technical assistance. The District has no ongoing financial interest or ongoing financial responsibility to the Council. To obtain the SSCO annual report, write to School Study Council of Ohio, 4795 Evanswood Drive, Floor 3, Columbus, Ohio 43229-7216.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 – JOINT VENTURE

The Center, local and city school districts and the county juvenile court system have formed a joint venture agreement to provide an educational program called PASS (Pickaway County Alternative School for Success). Initial investment by the Center was \$10,000. The Center is the fiscal agent for the program, which is reported as an special revenue fund. Program revenues will consist of contributions from the participation local and city school districts, the Center, the county juvenile court system and fees received from the school districts participating in the program.

On June 1 of each year, the Center, as fiscal agent, will determine if there are excess costs or revenue. Payment by the participating districts for any excess operational cost is based on a formula using total district enrollment days. Should revenue exceed costs, the Center shall carry the balance forward to the new fiscal year or distribute to the participating districts according to the formula should the alternative school be abolished. No excess operation costs were levied for the year ended June 30, 2006.

NOTE 12 – STATE FUNDING

The Center is funded by the State Department of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Center receives \$43.50 for each of the 9,741 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

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

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is not party to legal proceedings.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (billings for user charged services, tuition and student fees), interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<i>Non-Major Funds:</i>	
Day Reporting	\$863
Abuse	1,107
Misc. Federal Grant	<u>13,370</u>
Total All Funds	<u><u>\$15,340</u></u>

NOTE 15 – INSURANCE PURCHASING POOL

A. Ohio Association of School Business Officials Workers’ Compensation Group Rating Program

The Center participates in the Ohio Association of School Business Officials Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District 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 insures 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 Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the GRP.

B. Ohio School Plan

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

NOTE 16 – NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the Center’s \$59,839 restricted net assets, \$33,897 is restricted by enabling legislation.

Pickaway County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the Center 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 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

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

Board of Education
Pickaway County Educational Service Center
2050 Stoneridge Drive
Circleville, OH 43313

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pickaway County Educational Service Center (the Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 18, 2006, in which we noted the Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 to the financial statements we 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.

Board of Education
Pickaway County Educational Service Center
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit in Accordance with Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material affect 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 for the information and use of the Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

December 18, 2006



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

PICKAWAY 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
FEBRUARY 22, 2007**