



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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EDUCATIONAL SERVICE CENTER
DARKE COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

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

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

Ohio Administrative Code §117-2-03 (B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Darke County, as of June 30, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General and Title VI-B funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The Federal Awards Expenditures Schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the ESC's basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 21, 2006

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

This discussion and analysis of the Darke County Educational Service Center financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2006, within the limitations of the Educational Service Center's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Key highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$137,597, or 20 percent.
- The Educational Service Center's receipts are primarily intergovernmental grants and contributions, which accounted for about 65 percent of the total cash received during the year. Charges for services to the area school districts accounted for about 33 percent of the total cash received and the other two percent was made up of interest, tuition/fees and miscellaneous receipts.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Educational Service Center's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Educational Service Center as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Educational Service Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the Educational Service Center at fiscal year-end. The statement of activities compares cash disbursements with program receipts for the Educational Service Center's programs. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational requirements of the program.

These statements report the Educational Service Center's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, one can think of these changes as one way to measure the Educational Service Center's financial health. Over time, increases or decreases in the Educational Service Center's cash position is one indicator of whether the Educational Service Center's financial health is improving or deteriorating. When evaluating the Educational Service Center's financial condition, one should also consider other non-financial factors as well such as the condition of the Educational Service Center's capital assets and the reliance on non-local financial resources for operations.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds – not the Educational Service Center as a whole. The Educational Service Center establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The fund financial statements provide a detailed view of the Educational Service Center's operations and the basic services it provides. Fund information helps determine whether there are more or less financial resources that can be spent to finance the Educational Service Center's activities. The Educational Service Center's significant funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Educational Service Center's major funds are the General Fund, the Title VI-B Fund, and the Permanent Improvement Fund.

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005 on a modified cash basis:

Table 1		
Net Assets		
	Governmental Activities	
	FY 2006	FY 2005
Assets		
Equity in Pooled Cash, Cash		
Equivalents and Investments	\$810,836	\$673,239
Total Assets	\$810,836	\$673,239
Net Assets		
Restricted for:		
Capital Outlay	175,359	175,416
Other Purposes	162,131	147,765
Unrestricted	473,346	350,058
Total Net Assets	\$810,836	\$673,239

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

As mentioned previously, net assets of governmental activities increased \$137,597 or 20 percent during fiscal year 2006. The primary reason for the increase in cash balances was an increase in contracted services outside the county.

Table 2 reflects the changes in net assets in fiscal year 2006, and a comparative analysis of the changes in net assets in fiscal year 2005.

**Table 2
Changes in Net Assets**

	<u>Governmental Activities FY 2006</u>	<u>Governmental Activities FY 2005</u>
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$1,053,854	\$929,751
Operating Grants and Contributions	1,329,492	1,120,966
Capital Grants and Contributions	3,000	
Total Program Receipts	<u>2,386,346</u>	<u>2,050,717</u>
General Receipts:		
Grants and Entitlements Not Restricted to Specific Programs	655,367	611,403
Interest	11,160	6,213
Miscellaneous	2,581	18,750
Total General Receipts	<u>669,108</u>	<u>636,366</u>
Total Receipts	<u>3,055,454</u>	<u>2,687,083</u>
Disbursements:		
Instruction:		
Regular	47,625	40,755
Special	645,852	577,796
Support Services:		
Pupils	887,825	874,625
Instructional Staff	953,924	754,593
Board of Education	62,035	35,027
Administration	181,626	190,607
Fiscal	77,768	75,931
Operation and Maintenance of Plant	23,407	24,649
Central	37,795	13,933
Total Disbursements	<u>2,917,857</u>	<u>2,587,916</u>
Increase in Net Assets	137,597	99,167
Net Assets, July 1, 2005	<u>673,239</u>	<u>574,072</u>
Net Assets, June 30, 2006	<u><u>\$810,836</u></u>	<u><u>\$673,239</u></u>

The Educational Service Center's receipts are primarily intergovernmental grants and contributions, which accounted for about 65 percent of the total cash received during the year. Charges for services to the area school districts accounted for about 33 percent of the total cash received and the other two percent was made up of interest, tuition/fees, and miscellaneous receipts. Operating grants and contributions increased by about 19 percent over fiscal year 2005 due to an increase in Title VI-B grant funding.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

Pupil Support Services accounted for approximately 30 percent of total cash disbursements for fiscal year 2006. Instructional Staff Support Services accounted for about 33 percent of total cash disbursements and Special Instruction programs accounted for another 22 percent. The primary reason for the increase in special instructions expenditures and pupil, instructional staff and central support service expenditures was the increase in the Title VI-B grant funding.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major activities of the Educational Service Center. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the Educational Service Center that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3, along with comparative information for fiscal year 2005. That is, it identifies the cost of these services supported by unrestricted State entitlements and investment earnings.

**(Table 3)
Governmental Activities**

	Total Cost Of Services FY 06	Net Cost of Services FY 06	Total Cost Of Services FY 05	Net Cost of Services FY 05
Instruction:				
Regular	\$47,625	(\$16,646)	\$40,755	(\$9,208)
Special	645,852	199,322	577,796	124,234
Support Services:				
Pupil	887,825	(221,817)	874,625	(115,230)
Instructional Staff	953,924	250,765	754,593	206,629
Board of Education	62,035	33,443	35,027	33,084
Administration	181,626	181,626	190,607	190,607
Fiscal	77,768	77,768	75,931	75,051
Operation and Maintenance of Plant	23,407	22,627	24,649	23,825
Central	37,795	4,423	13,933	8,207
Total Expenses	\$2,917,857	\$531,511	\$2,587,916	\$537,199

Charges for services, operating grants, and capital grants accounted for 78 percent of total cash receipts received and were used to fund the expenses of the Educational Service Center. The remaining 22 percent of cash receipts were from unrestricted State entitlements, investment earnings, tuition/fees and miscellaneous receipts. The Educational Service Center relies on these receipts to furnish the services it provides to area school districts and students.

The Educational Service Center's Funds

All funds of the Educational Service Center are governmental funds. Total funds cash receipts were \$3,055,454 and total fund disbursements were \$2,917,857 for fiscal year 2006. The greatest change within the funds occurred in the General Fund which had an increase of \$123,288 in fund balance due to a greater number of contracted services outside the County.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

Capital Assets

Capital Assets

The Educational Service Center tracks its capital assets on the State EIS system. At June 30, 2006, the book value of the capital assets was \$789,207.

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The Educational Service Center was in fiscal caution in fiscal year 2002. Since then, cash disbursements are scrutinized more carefully and are paid out of grants if they are within the grant guidelines to keep General Fund disbursements in line with receipts.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Emiko Augsburger, Treasurer, Darke County Educational Service Center, 5279 Education Drive, Greenville, Ohio 45331 or e-mail at Dk_treas@mdeca.org.

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EDUCATIONAL SERVICE CENTER
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash, Cash Equivalents and Investments	<u>\$810,836</u>
Total Assets	<u><u>\$810,836</u></u>
Net Assets	
Restricted for:	
Capital Outlay	\$175,359
Other Purposes	162,131
Unrestricted	<u>473,346</u>
Total Net Assets	<u><u>\$810,836</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities					
Instruction:					
Regular	\$47,625	\$50,098	\$14,173	\$16,646	
Special	645,852	275,051	171,479	(199,322)	
Support Services:					
Pupil	887,825	435,164	674,478	221,817	
Instructional Staff	953,924	264,169	435,990	(250,765)	
Board of Education	62,035	28,592		(33,443)	
Administration	181,626			(181,626)	
Fiscal	77,768			(77,768)	
Operation and Maintenance of Plant Central	23,407 37,795	780	33,372	(22,627) (4,423)	
Total Governmental Activities	<u>\$2,917,857</u>	<u>\$1,053,854</u>	<u>\$1,329,492</u>	<u>\$3,000</u>	<u>(531,511)</u>
General Receipts					
				655,367	
				11,160	
				2,581	
				669,108	
				137,597	
				673,239	
				\$810,836	

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Title VI-B</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash, Cash Equivalents and Investments	\$473,346	\$45,018	\$174,984	\$117,488	\$810,836
Fund Balances					
Reserved for Encumbrances	36,946	17,090		5,956	59,992
Unreserved:					
Undesignated, Reported in:					
General Fund	436,400				436,400
Special Revenue Funds		27,928		111,157	139,085
Capital Projects Funds			174,984	375	175,359
Total Fund Balances	<u>\$473,346</u>	<u>\$45,018</u>	<u>\$174,984</u>	<u>\$117,488</u>	<u>\$810,836</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Title VI-B</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Intergovernmental	\$655,367	\$1,089,720		\$239,565	\$1,984,652
Interest	11,160				11,160
Tuition and Fees				40,756	40,756
Extracurricular Activities				17,290	17,290
Customer Sales and Services	978,389			15,300	993,689
Miscellaneous	97			5,326	5,423
Total Receipts	<u>1,645,013</u>	<u>1,089,720</u>		<u>318,237</u>	<u>3,052,970</u>
Disbursements					
Current:					
Instruction:					
Regular				47,625	47,625
Special	478,396	106,874		60,582	645,852
Support Services:					
Pupil	212,195	646,691		28,939	887,825
Instructional Staff	481,465	300,263		172,196	953,924
Board of Education	62,035				62,035
Administration	181,626				181,626
Fiscal	77,768				77,768
Operation and Maintenance of Plant	23,407				23,407
Central	7,317	26,439		4,039	37,795
Total Disbursements	<u>1,524,209</u>	<u>1,080,267</u>		<u>313,381</u>	<u>2,917,857</u>
Excess of Receipts Over Disbursements	120,804	9,453		4,856	135,113
Other Financing Sources:					
Proceeds from Sale of Capital Assets	2,484				2,484
Net Change in Fund Balances	123,288	9,453		4,856	137,597
Fund Balances Beginning of Year	<u>350,058</u>	<u>35,565</u>	<u>\$174,984</u>	<u>112,632</u>	<u>673,239</u>
Fund Balances End of Year	<u>\$473,346</u>	<u>\$45,018</u>	<u>\$174,984</u>	<u>\$117,488</u>	<u>\$810,836</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$625,135	\$625,135	\$655,367	\$30,232
Interest	8,000	8,000	11,160	3,160
Charges for Services	940,173	940,173	978,389	38,216
Miscellaneous			97	97
Total Revenues	<u>1,573,308</u>	<u>1,573,308</u>	<u>1,645,013</u>	<u>71,705</u>
Expenditures				
Current:				
Instruction:				
Special	571,354	571,354	487,497	83,857
Support Services:				
Pupil	243,942	243,942	215,753	28,189
Instructional Staff	643,222	643,222	498,556	144,666
Board of Education	87,656	87,656	66,762	20,894
Administration	198,076	198,076	181,626	16,450
Fiscal	85,851	85,851	78,280	7,571
Operation and Maintenance of Plant	38,200	38,200	25,362	12,838
Central	12,000	12,000	7,317	4,683
Total Expenditures	<u>1,880,301</u>	<u>1,880,301</u>	<u>1,561,153</u>	<u>319,148</u>
Excess of Revenues Over (Under) Expenditures	(306,993)	(306,993)	83,860	390,853
Other Financing Sources				
Proceeds from Sale of Capital Assets			2,484	2,484
Net Change in Fund Balance	(306,993)	(306,993)	86,344	393,337
Fund Balance Beginning of Year	332,119	332,119	332,119	
Prior Year Encumbrances Appropriated	17,937	17,937	17,937	
Fund Balance (Deficit) End of Year	<u>\$43,063</u>	<u>\$43,063</u>	<u>\$436,400</u>	<u>\$393,337</u>

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

	<u>Budgeted Amounts</u>			(Optional) Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$1,109,841	\$1,109,841	\$1,089,720	(\$20,121)
Expenditures				
Current:				
Instruction:				
Special	121,205	121,205	106,874	14,331
Support Services:				
Pupil	724,874	724,874	649,250	75,624
Instructional Staff	323,148	323,148	311,695	11,453
Central	29,539	29,539	29,539	
Total Expenditures	<u>1,198,766</u>	<u>1,198,766</u>	<u>1,097,358</u>	<u>101,408</u>
Excess of Revenues Under Expenditures	(88,925)	(88,925)	(7,638)	81,287
Fund Balance Beginning of Year	35,511	35,511	35,511	
Prior Year Encumbrances Appropriated	<u>55</u>	<u>55</u>	<u>55</u>	
Fund Balance (Deficit) End of Year	<u><u>(\$53,359)</u></u>	<u><u>(\$53,359)</u></u>	<u><u>\$27,928</u></u>	<u><u>\$81,287</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Darke County Educational Service Center (the "Educational Service Center") is located in Greenville, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Mississinawa Valley, Ansonia, Arcanum-Butler, Franklin Monroe and Tri-Village Local School District, the Versailles Exempted Village School District and the Greenville City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center has 14 support staff employees, 27 certified teaching personnel and 4 administrative employees that provide services to the local, exempted village and city school districts.

A. Reporting Entity

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

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

The Educational Service Center participates in three jointly governed organizations and two insurance purchasing pools. These organizations are discussed in Notes 8 and 9 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Miami Valley Career Technology Center

Insurance Purchasing Pools:

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

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Educational Service Center chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The Educational Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

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

The following are the Educational Service Center's major funds:

General Fund - The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The General Fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

Title VI-B Fund – The Title VI-B Fund accounts for a grant to assist in providing an appropriate public education to all children with disabilities.

Permanent Improvement Fund – The Permanent Improvement Fund accounts for all transactions related to the acquiring, constructing, or improving of permanent improvements.

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

B. Basis of Presentation

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

- 1. Government-wide Financial Statement of Activities:** This statement displays information about the Educational Service Center as a whole.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. These disbursements are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified-cash basis or draws from the Educational Service Center's general receipts.

- 2. Fund Financial Statements:** Fund financial statements report detailed information about the Educational Service Center. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

C. Cash, Cash Equivalents and Investments

The Educational Service Center pools cash from all funds for investment purposes. Interest in the pool is presented as "equity in pooled cash, cash equivalents and investments" on the financial statements.

The Educational Service Center values investments and cash equivalents at cost.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$11,160, including \$5,227 assigned from other Educational Service Center funds.

For presentation on the financial statements, investments with an original maturity of three months or less when purchased are deemed cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies are reported as disbursements when purchased.

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Educational Service Center's modified-cash basis of accounting.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances.

H. Net Assets

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

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

I. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

J. Budgetary Data

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are appropriated.

1. Appropriations

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund, 2-digit function level of expenditure. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. Budgetary controls implemented by the Educational Service Center require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriations totals at the levels of control established by the Board. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, must be approved by the Governing Board of the Educational Service Center. During the year, five supplemental appropriation measures were enacted.

The amounts reported as original budget in the budgetary statements reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Formal budgetary integration is employed as a management control device during the year for all funds.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. For fiscal year 2006, these funds included the Title VI-B Grant and the Early Childhood Grant.

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service 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 Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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 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;

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase 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, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage and 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 School District, 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.

The following information discloses the risks associated with the Educational Service Center's deposits and investments as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

A. Deposits

At June 30, 2006, the book balance of the Educational Service Center's deposits was \$662,346 and the bank balance was \$669,198.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June, 30, 2006, \$460,418 of the government's bank balance of \$669,198 was exposed to custodial credit risk in that it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the Educational Service Center's name.

B. Investments

As of June 30, 2006, the Educational Service Center had an investment in the Federal National Mortgage Association with a carrying value of \$148,490 that matures on October 27, 2006.

Interest Rate Risk: State statute limits the maturity of investments to five years unless matched to a specific obligation or debt of the Educational Service Center. The Educational Service Center does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The Educational Service Center places no limit on the amount it may invest in any one issuer. 100% of the Educational Service Center's investments at June 30, 2006, were in the Federal National Mortgage Association.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: State statute limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The Educational Service Center has no investment policy that would further limit its investment choices. The Educational Service Center's investment in the Federal National Mortgage Association was rated Aaa by Moody's Investors Service and AAA by Standard & Poor's at June 30, 2006.

4. PRIMARY REVENUE SOURCES

There are two primary sources of operating revenue for the Educational Service Center. The first primary source for Educational Service Center operating dollars comes from payments made directly the Educational Service Center by districts that have contracted with the Educational Service Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Educational Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. State Foundation Distributions – Amounts Paid by the State

This section has four parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Educational Service Center's territory times \$37.00. The Educational Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The third represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The final part of this section is the guarantee amount paid to the Educational Service Centers serving less than 10,000 students or to an Educational Service Center that otherwise would have experienced reduction in State funding because a local district has changed status to a city district.

The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

B. State Foundation Distributions – Amounts Paid by the Locals.

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are reported as charges for services.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

4. PRIMARY REVENUE SOURCES (Continued)

State Foundation Distributions – Amounts Paid under Contract by Locals

This section has only one part. It represents amounts due to the Educational Service Center for services provided under contract with participating districts which the Educational Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent charges for services.

5. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center has obtained commercial insurance for the following risks:

Building and Contents – replacement cost	\$970,061
Automobile Liability	1,000,000
General Liability	1,000,000
Computer Liability	126,054
Legal Liability	1,000,000

There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2006, the Educational Service Center participated in the Ohio School Board Association Workers' Compensation group rating plan, an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to those that can meet the GRP's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2006, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 9). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating educational service center and school districts is calculated and a premium rate is applied to all in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to educational service centers and school districts that can meet the MBP's selection criteria.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

5. RISK MANAGEMENT

D. Other Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource, Inc. Medical and surgical benefits for most employees are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 9).

6 PENSION PLANS

A. State Teachers Retirement System

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

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

A DB or Combined Plan member with five or more years 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 CD Plan who become disabled are entitled to only their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations; the same portion that was used to fund pension obligations for fiscal year 2005. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

6 PENSION PLANS (Continued)

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$188,827, \$166,971, and \$162,074 respectively; 100 percent has been contributed for all three years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$576 made by the Educational Service Center and \$564 made by the plan members.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853, or by visiting the SERS website at ohsers.org.

For fiscal year 2006, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute at an actuarially determined rate of 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$29,209, \$29,070, and \$20,281, respectively; 100 percent has been contributed for all three years.

C. Social Security System

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

7. POSTEMPLOYMENT BENEFITS

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

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

7. POSTEMPLOYMENT BENEFITS (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$14,525 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll for fiscal year 2006. 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 two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$14,045.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently eligible to receive health care benefits.

8. JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Dayton Educational Cooperative Association

The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public schools within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. 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 schools. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments made to MDECA were made from the General Fund in the amount of \$7,317 for data processing services during fiscal year 2006. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

8. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Southwestern Ohio Educational Purchasing Council

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the Educational Service Center paid \$350 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio.

C. Miami Valley Career Technology Center

The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from seventeen of the twenty-six participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city, local, and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, Huber Heights, Trotwood-Madison, Carlisle, Eaton, Versailles, Northmont, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from each of the following Educational Service Centers: Miami, Preble and Darke.

The Educational Service Center paid \$100 to the Miami Valley Career Technology Center during fiscal year 2006. To obtain financial information, write to the Miami Valley Career Technology Center, Deborah Gossett, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

9. GROUP INSURANCE PURCHASING POOL

A. Ohio School Board Association Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

10. CONTINGENCIES

The Educational Service Center receives 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

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**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>(Passed Through Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	046615 6BPB-2006	84.027	\$25,000	\$20,268
	046615 6BSD-2006	84.027	50,000	44,374
	046615-6BSF-2005	84.027	53,363	88,928
	046615-6BSF-2006	84.027	961,357	926,702
Subtotal			<u>1,089,720</u>	<u>1,080,272</u>
Special Education - Preschool Grant (IDEA Preschool)	046615-PGS1-2005	84.173	2,439	5,234
	046615-PGS1-2006	84.173	78,528	71,739
Subtotal			<u>80,967</u>	<u>76,973</u>
Total U.S. Department of Education - Special Education Cluster			<u>1,170,687</u>	<u>1,157,245</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>(Passed Through Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Medical Assistance Program Community Alternative Funding System	N/A	93.778	<u>8,272</u>	<u>8,272</u>
Total U.S. Department of Health and Human Services			<u>8,272</u>	<u>8,272</u>
Total Federal Assistance			<u>\$1,178,959</u>	<u>\$1,165,517</u>

The accompanying notes to this schedule are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The Educational Service Center passes-through certain Federal assistance received from the Ohio Department of Education to Darke County School Districts (sub-recipients). As described in Note A, the Educational Service Center records expenditures of Federal awards to sub-recipients when paid in cash.

The sub-recipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Educational Service Center is responsible for monitoring sub-recipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provision of contracts or grant agreements, and that performance goals are achieved.



**Auditor of State
Betty Montgomery**

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

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Darke County, (the ESC), as of and for the year ended June 30, 2006, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated December 21, 2006, wherein, we noted the ESC uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the ESC's management dated December 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2006-001. In a separate letter to the ESC's management dated December 21, 2006, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 21, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

Compliance

We have audited the compliance of the Educational Service Center, Darke County, (the ESC), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal program. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the ESC's management in a separate letter dated December 21, 2006.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 21, 2006

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA #84.027 – Grants to States (IDEA, Part B) CFDA #84.173 – Preschool Grants
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

MATERIAL NONCOMPLIANCE

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Educational Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Educational Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The ESC should prepare their financial statements in accordance with GAAP

Officials Response:

We have filed OCBOA (other comprehensive basis of accounting) statements for fiscal 2006 due to the Board's decision to minimize the costs associated with filing the statements on the GAAP basis.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC Sec. 117.38 and OAC Sec. 117-2-03 (B) failure to prepare and file financial statements in accordance with generally accepted accounting principles.	No	Repeated as finding 2006-001.
2005-002	ORC Sec 5705.41(d) failure to certify purchase orders prior to entering into purchase obligations.	Yes	Partially corrected and comment was re-issued in a separate letter to management of the Educational Service Center.



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

DARKE 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 8, 2007