LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Logan County Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Logan County Educational Service Center, Logan County, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2007 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 19, 2007

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased $209,197.
- Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for $2,472,048 or approximately 84 percent of total revenues.
- The Center had $2,731,422 in total expenses, approximately 95 percent of which was offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Center's operations and activities as a whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole Center, presenting both an aggregate view of the finances of the Center and a longer-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and the available funds for long-term 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 a single column. This level of detail is meant to enhance the financial statements.

Reporting the Center as a Whole

The statement of net assets and the statement of activities reflect how the Center did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors. Factors can be financial or non-financial. Non-financial factors include mandated educational programs, as well as locally requested programs.

All of the Center's programs and services provided are reported as governmental activities. These activities include: instruction, support services, extracurricular activities, and non-instructional services.

Reporting the Center's Most Significant Funds

Fund financial statements provide detailed information about the Center's major fund, which is the General Fund.

All of the Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Center's operations and the basic services it provides.

The relationship, or differences, between governmental activities reported on the statement of net assets and the statement of activities and in the governmental funds is reconciled in the financial statements.

Reporting the Center's Fiduciary Responsibilities

The Center acts as a fiscal agent for another entity. This activity is reported in an agency fund. The Center's fiduciary activities are reported in separate statement of fiduciary net assets. This activity is excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Center as a Whole

Table 1 provides a summary of the Center's net assets for fiscal year 2006 compared to fiscal year 2005.

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets:		
Current and Other Assets	$386,029	$290,992
Capital Assets, Net	50,669	55,469
Total Assets	436,698	346,461
Liabilities:		
Current and Other Liabilities	325,179	452,938
Long-Term Liabilities	107,007	98,208
Total Liabilities	432,186	551,146
Net Assets:		
Invested in Capital Assets, Net of Related Debt	50,669	55,469
Unrestricted (Deficit)	(46,157)	(260,154)
Total Net Assets	$4,512	($204,685)

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

Table 2
Change in Net Assets
Governmental Activities

	2006	2005
Revenues		
Program Revenues:		
Charges for Services and Sales	$2,421,263	$829,188
Operating Grants, Contributions and Interest	50,785	41,422
General Revenues:		
Grants and Entitlements	444,051	1,500,575
Gifts and Donations	12,834	6,138
Interest	4,681	3,771
Miscellaneous	7,005	19,534
Total Revenues	2,940,619	2,400,628
Program Expenses		
Instruction:		
Regular	12,072	
Special	1,326,034	1,091,468
Support Services:		
Pupils	566,073	522,278
Instructional Staff	329,400	363,995
Board of Education	10,169	7,006
Administration	132,021	149,859
Fiscal	307,220	287,887
Business	3,000	
Operation and Maintenance of Plant	9,824	13,388
Central	9,578	39,758
Non-Instructional	23,120	19,522
Extracurricular Activities	2,911	6,801
Total Expenses	2,731,422	2,501,962
Increase (Decrease) in Net Assets	$209,197	($101,334)

The total revenues increased in fiscal year 2006 which resulted in a significant increase in net assets for fiscal year 2006.

Table 3 indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services.

Table 3
Cost of Services

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:				
Regular	$12,072	$12,072		
Special	1,326,034	(413,574)	$1,091,468	$274,525
Support Services:				
Pupils	566,073	36,644	522,278	522,278
Instructional Staff	329,400	195,572	363,995	313,328
Board of Education	10,169	10,169	7,006	7,006
Administration	132,021	128,421	149,859	146,859
Fiscal	307,220	267,686	287,887	287,887
Business	3,000	3,000		
Operation and Maintenance of Plant	9,824	9,824	13,388	13,388
Central	9,578	7,239	39,758	39,758
Non-Instructional	23,120	(590)	19,522	19,522
Extracurricular Activities	2,911	2,911	6,801	6,801
Total Expenses	$2,731,422	$259,374	$2,501,962	$1,631,352

During fiscal year 2006, program revenues were adequate to cover instruction activities. For all governmental activities, support from general revenues was approximately 5 percent.

The Center's Funds

The Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were $2,928,163 and expenditures were $2,744,870 which indicates the Center was able to meet current costs.

Budgeting Highlights

The Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements, and encumbrances. The Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the function level. All other funds are budgeted at the fund level.

As services provided to the local school districts change during the fiscal year, adjustments are made from the original budget. One example of a need to increase the budget would be an increase in classroom students. Teacher Aides, which had not been budgeted for originally, would be added due to classroom enrollment factors. This type of request generally comes directly from the Superintendent of the school district where the classroom unit is housed. Additions to personnel are the primary cause for budget revisions and are approved by Center's Board.

For the General Fund, original budgeted revenues, in the amount of $2,258,637 were below the final budgeted revenues, in the amount of $2,331,608. The change was approximately three percent.

Expenditures were budgeted at $2,356,499, which was less than the final budget of $2,618,831, while actual expenditures were $2,730,343.

Capital Assets

At the end of fiscal year 2006, the Center had $50,669 invested in capital assets (net of accumulated depreciation). For further information regarding the Center's capital assets, see the notes to the basic financial statements.

Debt

The Center had no debt in fiscal year 2006. The only long-term obligations of the Center are related to compensated absences. For further information regarding the Center's long-term obligations, see the notes to the basic financial statements.

Current Issues

The Logan County Commissioner will continue to provide us with office space at no cost.

Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Center's finances and to reflect accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sara Tracey, Treasurer, Logan County Educational Service Center, 121 South Opera Street, Bellefontaine, Ohio 43311.

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LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$344,022
Accounts Receivable	42,007
Depreciable Capital Assets, Net	50,669
Total Assets	436,698
Liabilities:	
Accounts Payable	45,054
Accrued Wages and Benefits Payable	180,855
Intergovernmental Payable	87,328
Matured Compensated Absences Payable	11,942
Long Term Liabilities:	
Due Within One Year	20,701
Due in More Than One Year	86,306
Total Liabilities	432,186
Net Assets:	
Invested in Capital Assets, Net of Related Debt	50,669
Unrestricted	(46,157)
Total Net Assets	$4,512

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

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

		Program Revenues		Net (Expense) Revenue and Change in Net Assets
	Expenses	**Charges for Services and Sales**	**Operating Grants, Contributions, and Interest**	**Governmental Activities**
Governmental Activities:				
Instruction:				
Regular	$12,072			($12,072)
Special	1,326,034	$1,739,608		413,574
Support Services:				
Pupils	566,073	529,429		(36,644)
Instructional Staff	329,400	86,643	$47,185	(195,572)
Board of Education	10,169			(10,169)
Administration	132,021		3,600	(128,421)
Fiscal	307,220	39,534		(267,686)
Business	3,000			(3,000)
Operation and Maintenance of Plant	9,824			(9,824)
Central	9,578	2,339		(7,239)
Non-Instructional Services	23,120	23,710		590
Extracurricular Activities	2,911			(2,911)
Total Governmental Activities	2,731,422	2,421,263	50,785	(259,374)

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	444,051
Gifts and Donations	12,834
Investment Earnings	4,681
Miscellaneous	7,005
Total General Revenues	468,571
Change in Net Assets	209,197
Net Assets Beginning of Year	(204,685)
Net Assets End of Year	$4,512

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Other Governmental Funds	Totals Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	$295,806	$48,216	$344,022
Accounts Receivable	40,367	1,640	42,007
Total Assets	336,173	49,856	386,029
Liabilities:			
Accounts Payable	39,690	5,364	45,054
Accrued Wages and Benefits Payable	172,004	8,851	180,855
Intergovernmental Payable	86,678	650	87,328
Matured Compensated Absences Payable	11,942		11,942
Deferred Revenue	12,456		12,456
Total Liabilities	322,770	14,865	337,635
Fund Balances:			
Reserved for Encumbrances	31,493	10,677	42,170
Unreserved, Undesignated Reported In			
General Fund	(18,090)		(18,090)
Special Revenue Funds		24,314	24,314
Total Fund Balances	13,403	34,991	48,394
Total Liabilities and Fund Balances	$336,173	$49,856	$386,029

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total Governmental Fund Balances		$48,394
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		50,669
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Excess Costs	$12,456	
		12,456
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Compensated Absences Payable	(107,007)	
		(107,007)
Net Assets of Governmental Activities		$4,512

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Intergovernmental	$444,051	$65,785	$509,836
Interest	4,681		4,681
Tuition and Fees	566,677	169,255	735,932
Extracurricular Activities		3,061	3,061
Gifts and Donations		17,834	17,834
Customer Sales and Services	1,643,167	6,647	1,649,814
Miscellaneous	2,165	4,840	7,005
Total Revenues	2,660,741	267,422	2,928,163
Expenditures:			
Current:			
Instruction:			
Regular	12,072		12,072
Special	1,161,172	155,627	1,316,799
Support Services:			
Pupils	591,443	1,400	592,843
Instructional Staff	278,121	57,097	335,218
Board of Education	10,169		10,169
Administration	126,634	1,851	128,485
Fiscal	301,538		301,538
Business		3,000	3,000
Operation and Maintenance of Plant	9,824		9,824
Central	8,891		8,891
Non-Instructional Services	23,120		23,120
Extracurricular Activities		2,911	2,911
Total Expenditures	2,522,984	221,886	2,744,870
Revenues Over Expenditures	137,757	45,536	183,293
Fund Balances at Beginning of Year (Restated - See Note 3)	(124,354)	(10,545)	(134,899)
Fund Balances at End of Year	$13,403	$34,991	$48,394

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

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

Net Change in Fund Balances - Total Governmental Funds		$183,293
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Governmental funds report capital outlay as expenditures. However, on 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 capital outlay exceeds depreciation in the current year.		
Capital Outlay - Depreciable Capital Assets		
Depreciation	($4,800)	
		(4,800)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	12,456	
		12,456
Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:		
Compensated Absences Payable	18,248	
		18,248
Change in Net Assets of Governmental Activities		$209,197

See accompanying notes to basic financial statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Agency
Assets:	
Equity in Pooled Cash and Cash Equivalents	$67,644
Liabilities:	
Undistributed Monies	$67,644

See accompanying notes to basic financial statements.

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1. REPORTING ENTITY

The Logan County Educational Service Center (the Center) is located in Bellefontaine, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to Benjamin Logan, Riverside, and Indian Lake Local School Districts. In addition, the Center provides these services to school districts outside Logan County. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Center is operated under a locally elected Board form of government consisting of five members at-large for staggered four terms. The Center has 31 support staff employees and 28 certified teaching personnel that provide service to the local and city school districts.

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

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 obligated 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 that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Center.

The Center is associated with several organizations, which are defined as jointly governed organizations and two public entity risk pools. These organizations include the Western Ohio Computer Organization, Ohio Hi-Point Joint Vocational School, the West Central Ohio Special Education Regional Resource Center, the Logan County Family and Children First Council, the Logan County Education Foundation, the Logan County Schools Benefit Plan Association, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are discussed in Notes 13 and 14 to the basic financial statements.

The Center serves as fiscal agent for the Logan County Family and Children First Council, a jointly governed organization for the Center. The Center also is the cash conduit for various grant funds belonging to the three school districts within the County. Accordingly, this activity is presented within the Center's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

During the fiscal 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 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. Fiduciary funds are reported by type.

B. Fund Accounting

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

1. Governmental Funds

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. 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 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. The Center's agency fund accounts for resources held for other organizations.

C. Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

D. Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Deferred Revenues

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

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

3. Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was $4,681.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed. The Center did not have any prepaid items.

G. Capital Assets

All of the Center's capital assets are governmental capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Center's capitalization threshold is one thousand dollars. The Center does not have any infrastructure. Improvements are capitalized. All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings	40 years
Furniture and Fixtures	5 - 20 years
Equipment	10 years

H. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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 a liability for accumulated unused sick leave for all employees after twenty years of current service with the Center, or after fifteen years of service and at least forty five years of age, or after five years of service and at least fifty years of age.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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 include activities for federal and state grants restricted to expenditure for specified purposes.

The Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance Reserves

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

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. The Center did not have this activity during 2006.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The Center did not have this activity during 2006.

N. Estimates

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

3. RESTATEMENT OF FUND BALANCE/ACCOUNTING CHANGE

The prior period General Fund financial statements reflected a liability for matured compensated absences. Included in this liability were amounts that were later determined not to be obligations at year-end. As a result, there was an understatement of the ending fund balance and the revenues over/(under) expenditures for the General Fund. The beginning General Fund balance for 2006 has been adjusted to reflect the reduction in the prior year liability. This adjustment had the following impact on the General Funds amounts reported at June 30, 2005:

June 30, 2005 Fund Balance	($151,401)	June 30, 2005 Revenues Over Expenditures	($81,418)
Accounting Change	27,047		27,047
June 30, 2005 Fund Balance	($124,354)	June 30, 2005 Revenues Over Expenditures	($54,371)

4. DEPOSITS AND INVESTMENTS

Monies held by the Center are classified by State statute into three categories.

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

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

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

Interim monies held by the Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

4. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

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

8. Commercial paper and bankers acceptances if training requirements have been met.

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, $358,966 of the Center's bank balance of $458,966 was exposed to custodial credit 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.

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

B. Investments

During 2006, the Center did not have any investments.

Interest Rate Risk - The Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Center, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase.

Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Custodial Credit Risk - For an investment, 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. The Center has no investment policy dealing with investment custodial risk beyond the requirement in the state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The Center places no limit on the amount it may invest in any one issuer.

5. STATE FUNDING

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the local school districts to which the Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Center by $37. This amount is provided from State resources.

If additional funding is needed by the Center, and if a majority of the Boards of Education of the local school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the local school districts served by the Center through additional reductions in their resources provided through the School Foundation Program.

The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

6. RECEIVABLES

Receivables at June 30, 2006, consisted of accounts receivables. All receivables are considered collectible within one year and in full.

7. CAPITAL ASSETS

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

	Balance at 7/1/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	$42,000			$42,000
Furniture, Fixtures, and Equipment	46,520			46,520
Total Depreciable Capital Assets	88,520			88,520
Less Accumulated Depreciation				
Buildings and Building Improvements	3,238	1,050		4,288
Furniture, Fixtures, and Equipment	29,813	3,750		33,563
Total Accumulated Depreciation	33,051	4,800		37,851
Depreciable Capital Assets, Net	$55,469	($4,800)		$50,669

7. CAPITAL ASSETS (Continued)

The Center's buildings consist of a modular classroom that is used by the local school districts served by the Center.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$278
Support Services:	
Pupil	636
Instructional Staff	578
Administration	1,852
Fiscal	769
Central	687
Total Depreciation Expense	$4,800

8. RISK MANAGEMENT

A. Property and Liability

The Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Center contracted with Nationwide Insurance for general liability insurance. Property is also protected by Nationwide Insurance. Coverages provided by Nationwide Insurance are as follows:

Coverage	Limit	Aggregate Limit	Deductible
General Liability	$1,000,000	$3,000,000	$0
Employee Benefits	1,000,000	3,000,000	0
Employers' Liability	1,000,000		0
Educational Legal Liability	1,000,000	3,000,000	2,500

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

B. Health Insurance

The Center participates in the Logan County Schools Benefit Plan Association (the Plan), a public entity shared risk pool (Note 14) consisting of three local school districts, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

8. RISK MANAGEMENT (Continued)

C. Workers' Compensation

For fiscal year 2006, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the Center pays an enrollment fee to the plan to cover the costs of administering the program.

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS 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 the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by 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 fifty and termination of employment.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC Plan and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC Plan or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, 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 Combined Plan. This option expired on December 31, 2001.

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

The Center’s required contribution for pension obligations for the DB Plan for the fiscal years ending June 30, 2006, 2005, and 2004, were $160,064, $168,666, and $152,106, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The Center had no contributions under the Defined Contribution Plan or the Combined Plan.

B. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension. SERS provides retirement and disability plan benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent 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 statutory maximum amounts, by the SERS Retirement Board. The Center’s required contribution for pension obligations to SERS for the fiscal years ending June 30, 2006, 2005, and 2004 were $65,922, $65,381, and $49,853, respectively; 38 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

10. POSTEMPLOYMENT BENEFITS (Continued)

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount was $12,313.

The Retirement 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, and June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.5 billion on June 30, 2006.

For the year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000. There were 119,184 eligible benefit recipients.

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 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 health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the basic benefits, the remainder of the employer’s 14% contribution is allocated to providing health care benefits. At June 30, 2006, the allocation rate is 3.42%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal 2006, the minimum pay has been established as $35,800. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $28,815. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006, were $158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 the value of the health care fund was $295.6 million, which is about 221% of next year’s projected net health care costs. 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% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

11. OTHER EMPLOYEE BENEFITS (Continued)

All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract year in which it is earned.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for all personnel. Upon retirement, payment is made for 22.5 percent of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

B. Life Insurance

The Center provides life insurance and accidental death and dismemberment insurance to most employees through Anthem Blue Cross and Blue Shield.

12. LONG-TERM OBLIGATIONS

Changes in the Center's long-term obligations during fiscal year 2006 were as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	$98,208	$107,004	$98,208	$107,004	$20,701
Total	$98,208	$107,004	$98,208	$107,004	$20,701

Compensated absences will be paid from the General Fund.

13. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. 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. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent upon the software package utilized. The governing board of WOCO consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO, as the residual interest in the net resources of the joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Cathy Doseck, Treasurer, Shelby County Educational Service Center (fiscal agent to the Western Ohio Computer Organization), 129 East Court Street, 4th Floor, Sidney, Ohio 45365.

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Joint Vocational School District, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained by contacting Margaret Grimm, Treasurer, at the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite #2, Wapakoneta, Ohio 45895.

D. Family and Children First Council

The Family and Children First Council provides services to multi-need youth in Logan County. Members of the council include but are not limited to the Logan County Board of Mental Retardation and Development Disabilities, Mental Health Board, Logan County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Logan County Head Start, Logan County Board of Health, Logan County Human Services, Logan County Educational Service Center and the Ohio Department of Youth Services. The operation of the council is controlled by an advisory committee, which consists of a representative from each agency. Funding comes mainly from the State of Ohio. Financial information can be obtained from Angela Haver, Executive Director, 1973 State Route 47 West, Bellefontaine, Ohio 43311.

E. Logan County Education Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Logan County Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Adelsberger, who serves as Financial Advisor, 2626 County Road 18, Bellefontaine, Ohio 43311.

14. INSURANCE POOLS

A. Logan County Schools Benefit Plan Association

The Center participates in the Logan County Schools Benefit Plan Association (the Plan), a public entity shared risk pool consisting of one local school district, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

15. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2006.

B. Litigation

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

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

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

	Budgeted Amounts			Variance with Final Budget Over
	Original	Final	Actual	(Under)
Revenues:				
Intergovernmental	$1,197,969	$1,252,659	$451,079	($801,580)
Interest	2,000	4,681	4,681	
Tuition and Fees	605,100	605,100	577,430	(27,670)
Customer Sales and Services	453,568	456,318	1,616,713	1,160,395
Miscellaneous		12,850	12,850	
Total Revenues	2,258,637	2,331,608	2,662,753	331,145
Expenditures:				
Current:				
Instruction:				
Special	1,029,285	1,029,285	1,273,511	(244,226)
Support services:				
Pupils	535,017	535,017	615,119	(80,102)
Instructional Staff	296,241	296,241	304,840	(8,599)
Board of Education	8,534	8,534	8,438	96
Administration	135,962	135,962	135,587	375
Fiscal	298,298	560,330	337,363	222,967
Operation and Maintenance of Plant	10,007	10,007	9,856	151
Central	16,412	16,412	18,731	(2,319)
Non-Instructional Services	26,743	27,043	26,898	145
Total Expenditures	2,356,499	2,618,831	2,730,343	(111,512)
Excess of Revenues Over (Under) Expenditures	(97,862)	(287,223)	(67,590)	219,633
Other Financing Sources (Uses):				
Advances In			11,197	11,197
Total Other Financing Sources (Uses)			11,197	11,197
Net Change in Fund Balance	(97,862)	(287,223)	(56,393)	230,830
Fund Balance at Beginning of Year	131,519	131,519	131,519	
Prior Year Encumbrances Appropriated	98,162	98,162	98,162	
Fund Balance at end of Year	$131,819	($57,542)	$173,288	$230,830

See accompanying notes to basic financial statements.

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

Budgetary Process

The Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund.

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 function level within the General Fund and the fund level in all other funds. The Treasurer has been authorized to allocate appropriations to the object level in the General Fund and the function and object level within all other funds.

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

BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the General Fund and the Alternative School Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

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

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

Net Change in Fund Balance

	General
GAAP Basis	$137,757
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	29,923
Accrued FY 2006, Not Yet Received in Cash	(27,911)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(399,737)
Accrued FY 2006, Not Yet Paid in Cash	310,314
Advances Net	11,197
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(117,936)
Budget Basis	($56,393)

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

Logan County Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Logan County Educational Service Center, Logan County (the Center) as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. 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 Center's management dated March 19, 2007, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

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

Mary Taylor, CPA
Auditor of State

March 19, 2007

Mary Taylor, CPA
Auditor of State

LOGAN COUNTY EDUCATIONAL SERVICE CENTER

LOGAN 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
JUNE 5, 2007

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