

Clermont County Educational Service Center

Clermont County, Ohio

Regular Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA

Auditor of State

Board of Education
Clermont County Educational Service Center
2400 Clermont Center Drive, Suite 202
Batavia, Ohio 45103

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2007

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Clermont County Educational Service Center
Clermont County, Ohio

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Clermont County Educational Service Center
2400 Clermont Center Drive
Suite 202
Batavia, Ohio 45103

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

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

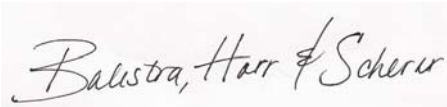
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2006, and the respective changes in financial position, where applicable, 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 November 16, 2006 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clermont County Educational Service Center
Independent Auditor's Report
Page 2

As described in Note 3, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*" and GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation*", and GASB Statement No. 47, "*Accounting for Termination Benefits*".

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 16, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The Center's assets exceeded its liabilities at June 30, 2006 by \$4,344,480.
- The Center's net assets of governmental activities increased \$1,233,709.
- General revenues accounted for \$1,391,158 in revenue or 9 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$14,666,612 or 91 percent of total revenues of \$16,057,770.
- The Center had \$14,824,061 in expenses related to governmental activities; \$14,666,612 of these expenses was offset by program specific charges for services and sales and operating grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the Center as a whole and present a longer-term view of the Center's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column.

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

REPORTING THE CENTER AS A WHOLE

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

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

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

- **Governmental Activities.** All of the Center's programs and services are reported here including instruction and support services.

REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Center's funds begins on page 7. Fund financial statements provide detailed information about the Center's major fund – not the Center as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Center is meeting legal responsibilities for use of grants. The Clermont County Educational Service Center's major fund is the General Fund.

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

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

THE CENTER AS A WHOLE

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

Table 1
 Net Assets
 Governmental Activities

	2006	2005
Assets:		
Current Assets	\$6,550,377	\$5,315,231
Capital Assets, Net	56,482	119,364
Total Assets	6,606,859	5,434,595
Liabilities:		
Current and Other Liabilities	1,948,872	1,960,961
Long-Term Liabilities	313,507	362,863
Total Liabilities	2,262,379	2,323,824
Net Assets:		
Invested in Capital Assets, Net of Related Debt	56,482	119,364
Restricted	4,249	38,946
Unrestricted	4,283,749	2,952,461
Total Net Assets	\$4,344,480	\$3,110,771

Total net assets of the Center as a whole increased \$1,233,709. Current assets increased due to an increase in charges for services and sales revenue for services provided to area local school districts.

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

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005. Table 2 provides a summary of the Center's change in net assets for 2006 compared to 2005.

Table 2
Change in Net Assets
Governmental Activities

	2006	2005
Revenues		
Program Revenues:		
Charges for Services and Sales	\$13,372,543	\$12,291,640
Operating Grants & Contributions	1,294,069	1,081,013
Total Program Revenues	<u>14,666,612</u>	<u>13,372,653</u>
General Revenues:		
Grants and Entitlements	1,120,437	1,280,309
Gifts and Donations	67,260	71,453
Investment Earnings	183,123	74,358
Miscellaneous	20,338	155,441
Total General Revenues	<u>1,391,158</u>	<u>1,581,561</u>
Total Revenues	<u>16,057,770</u>	<u>14,954,214</u>
Program Expenses		
Instruction		
Regular	340,285	400,020
Special	4,995,206	4,829,471
Adult/Continuing	172,937	178,869
Support Services		
Pupils	3,589,282	3,259,692
Instructional Staff	4,815,313	4,546,949
Board of Education	210,706	168,791
Administration	363,547	488,842
Fiscal	247,414	243,456
Central	15,855	23,236
Operation of Non-Instructional Services	73,516	61,894
Total Expenses	<u>14,824,061</u>	<u>14,201,220</u>
Net Assets at Beginning of Year	3,110,771	2,357,777
Increase in Net Assets	1,233,709	752,994
Net Assets at End of Year	<u>\$4,344,480</u>	<u>\$3,110,771</u>

The increase in charges for services and sales was due to an increase in revenue received for services provided to area local school districts.

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

Governmental Activities

Charges for services and sales comprised 83 percent of revenue for governmental activities, while operating grants and contributions comprised 8 percent of revenue for governmental activities of the Clermont County Educational Service Center for fiscal year 2006.

As indicated by governmental program expenses, instruction and support services for the benefit of the pupils are emphasized. Support services for pupils comprised 24 percent of governmental program expenses with support services for instructional staff comprising 32 percent of governmental expenses and special instruction comprising 34 percent of government expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	<u>2006</u>		<u>2005</u>	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$5,508,428	(\$400,941)	\$5,408,360	(\$102,673)
Support Services	9,242,117	552,528	8,730,966	907,697
Operation of Non-Instructional Services	73,516	5,862	61,894	23,543
Total Expenses	<u>\$14,824,061</u>	<u>\$157,449</u>	<u>\$14,201,220</u>	<u>\$828,567</u>

THE CENTER'S FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,112,537 and expenditures of \$14,810,535. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund increased by \$1,328,944. This increase was primarily due to an increase in tuition and fees and charges for services and sales.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the Center had \$56,482 invested in its capital assets. Table 4 shows the fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

Governmental Activities

	2006	2005
Furniture and Equipment	<u>\$56,482</u>	<u>\$119,364</u>
Totals	<u>\$56,482</u>	<u>\$119,364</u>

Changes in capital assets from the prior year resulted from the addition of a cargo van and a dual imaging scanner, disposal of several equipment items and depreciation expense. See Note 5 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2006, the Center did not have any outstanding debt obligations. For information regarding other long term obligations, please see Note 6 to the basic financial statements.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Center's financial condition and to show the Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Al Fleckinger, Treasurer, Clermont County Educational Service Center, 2400 Clermont Center Drive, Suite 202, Batavia, Ohio 45103.

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

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 5,399,433
Accounts Receivable	1,128,950
Intergovernmental Receivable	21,994
Noncurrent Assets:	
Depreciable Capital Assets, net	56,482
<i>Total Assets</i>	6,606,859
LIABILITIES:	
Current Liabilities:	
Accounts Payable	112,853
Accrued Wages and Benefits	1,356,471
Intergovernmental Payable	437,017
Matured Compensated Absences Payable	42,531
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	40,552
Due in More Than One Year	272,955
<i>Total Liabilities</i>	2,262,379
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	56,482
Restricted for Other Purposes	4,249
Unrestricted	4,283,749
<i>Total Net Assets</i>	\$ 4,344,480

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

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

	<u>Program Revenues</u>			Net(Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 340,285	\$ 288,191	\$ 29,554	\$ (22,540)
Special	4,995,206	4,749,889	673,994	428,677
Adult/Continuing	172,937	53,501	114,240	(5,196)
Support Services:				
Pupils	3,589,282	3,219,138	190,874	(179,270)
Instructional Staff	4,815,313	4,324,644	216,743	(273,926)
Board of Education	210,706	141,989	-	(68,717)
Administration	363,547	346,066	-	(17,481)
Fiscal	247,414	232,871	2,171	(12,372)
Central	15,855	15,093	-	(762)
Operation of Non-Instructional Services	73,516	1,162	66,492	(5,862)
<i>Total Governmental Activities</i>	<u>14,824,061</u>	<u>13,372,544</u>	<u>1,294,068</u>	<u>(157,449)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				1,120,437
Gifts and Donations not Restricted to Specific Programs				67,260
Investment Earnings				183,123
Miscellaneous				20,338
<i>Total General Revenues</i>				<u>1,391,158</u>
<i>Change in Net Assets</i>				1,233,709
<i>Net Assets Beginning of Year</i>				<u>3,110,771</u>
<i>Net Assets End of Year</i>				<u>\$ 4,344,480</u>

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

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

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 5,358,281	\$ 41,152	\$ 5,399,433
Accounts Receivable	1,128,950	-	1,128,950
Interfund Receivable	2,802	-	2,802
Intergovernmental Receivable	2,385	19,609	21,994
<i>Total Assets</i>	<u>6,492,418</u>	<u>60,761</u>	<u>6,553,179</u>
LIABILITIES:			
Accounts Payable	101,114	11,739	112,853
Accrued Wages and Benefits	1,312,700	43,771	1,356,471
Interfund Payable	-	2,802	2,802
Intergovernmental Payable	423,875	13,142	437,017
Matured Compensated Absences Payable	42,531	-	42,531
Deferred Revenue	-	12,559	12,559
<i>Total Liabilities</i>	<u>1,880,220</u>	<u>84,013</u>	<u>1,964,233</u>
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	25,617	-	25,617
Unreserved, Undesignated, Reported in:			
General Fund	4,586,581	-	4,586,581
Special Revenue Funds	-	(23,252)	(23,252)
<i>Total Fund Balances</i>	<u>4,612,198</u>	<u>(23,252)</u>	<u>4,588,946</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 6,492,418</u>	<u>\$ 60,761</u>	<u>\$ 6,553,179</u>

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

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

Total Governmental Fund Balances	\$ 4,588,946
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	56,482
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Intergovernmental	12,559
Long-Term Liabilities, including the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(313,507)
Net Assets of Governmental Activities	<u>\$ 4,344,480</u>

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

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

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Intergovernmental	\$ 1,794,431	\$ 674,841	\$ 2,469,272
Interest	183,123	-	183,123
Tuition and Fees	12,396,715	-	12,396,715
Gifts and Donations	67,260	-	67,260
Charges for Services and Sales	965,005	10,824	975,829
Miscellaneous	20,338	-	20,338
<i>Total Revenues</i>	<u>15,426,872</u>	<u>685,665</u>	<u>16,112,537</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	302,206	32,675	334,881
Special	4,994,990	-	4,994,990
Adult/Continuing	54,109	126,306	180,415
Support Services:			
Pupils	3,381,322	211,034	3,592,356
Instructional Staff	4,550,484	276,676	4,827,160
Board of Education	149,161	-	149,161
Administration	397,106	-	397,106
Fiscal	242,695	2,400	245,095
Central	15,855	-	15,855
Operation of Non-Instructional Services	-	73,516	73,516
<i>Total Expenditures</i>	<u>14,087,928</u>	<u>722,607</u>	<u>14,810,535</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	1,338,944	(36,942)	1,302,002
Other Financing Sources and Uses			
Transfers In	-	10,000	10,000
Transfers Out	(10,000)	-	(10,000)
<i>Total Other Financing Sources and Uses</i>	(10,000)	10,000	-
<i>Net Change in Fund Balances</i>	1,328,944	(26,942)	1,302,002
<i>Fund Balances at Beginning of Year</i>	<u>3,283,254</u>	<u>3,690</u>	<u>3,286,944</u>
<i>Fund Balances at End of Year</i>	<u>\$ 4,612,198</u>	<u>\$ (23,252)</u>	<u>\$ 4,588,946</u>

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

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

Net Change in Fund Balances - Total Governmental Funds \$ 1,302,002

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

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

Capital Asset Additions	25,799	
Current Year Depreciation	(71,651)	
Total	(45,852)	(45,852)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets		(17,030)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Intergovernmental		(54,767)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in Compensated Absences	49,356	
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Total	49,356	49,356
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Net Change in Net Assets of Governmental Activities \$ 1,233,709

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

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

NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY

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

Description of the Entity:

The Center is a Governing Board of an Educational Service Center as defined by Am. Sub. H.B. 117, 121st General Assembly. The Center is an administrative entity providing supervision and certain other services to the local Centers located within Clermont County. It currently operates under an elected Board of Educational Service Center (5 members) and provides special education to handicapped students. The Center has its own fiscal officer and is considered a separate entity and issues its financial statements.

Reporting Entity:

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

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations for which the Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2006, the Center had no component units.

The Center is associated with one jointly governed and two public entity risk pools. These organizations are discussed in Note 11 and Note 12 to the basic financial statements. These organizations are:

Jointly Governed:

Hamilton/Clermont Cooperative Association

Public Entity Risk Pools:

Ohio School Boards Association Workers' Compensation Group Rating Plan
Clermont County Health Trust

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Fund Accounting (Continued)

The Center uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

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

Governmental Fund Types:

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

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

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

B. Basis of Presentation

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Fees for contractual services, provided by the Center, received, but not earned, as of June 30, 2006, have been recorded as deferred revenues.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

Although not legally required, the Center adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to STAR Ohio and repurchase agreements. Except for nonparticipating investment contracts, investments are recorded at fair value that is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during fiscal year 2006 amounted to \$183,123.

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

F. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$2,000. The Center does not possess any infrastructure.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation (Continued)

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

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

G. Intergovernmental Revenues

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

H. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. During the course of normal operations the Center had transactions between funds. The most significant included routine transfers of resources, from one fund to another fund, through which resources to be expended are recorded as operating transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund transfers within governmental activities are eliminated in the statement of activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

I. Compensated Absences

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

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

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records all liability for accumulated unused sick leave for classified employees after 20 years of current service with the Center and for certified employees and administrators after 20 years of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, once incurred, that are paid in full and in a timely manner from current financial resources, are reported as obligations of the funds. However, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. The Center had long-term obligations at June 30, 2006 as disclosed in Note 6.

K. Net Assets

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

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

L. Net Assets Restricted by Enabling Legislation

As of June 30, 2006, of the Center's \$4,249 restricted net assets, the entire amount was restricted by enabling legislation.

M. Fund Balance Reserves

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

N. Estimates

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2006, the Center implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents." State statutes classify monies held by the Center into three categories.

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the Center's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Center's total average portfolio.

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. At year end, the carrying amount of the Center's was \$49,756 and the bank balance was \$92,577. The entire bank balance was covered by federal depository insurance.

Investments The Center had the following investments at June 30, 2006:

	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreement	\$ 3,361,466	0
STAR Ohio	1,988,211	0
Total Fair Value	\$ 5,349,677	

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

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Center's investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The Center has invested 37 percent in STAR Ohio and 63 percent in repurchase agreements.

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

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

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance <u>6/30/2005</u>	Additions	Deletions	Ending Balance <u>6/30/2006</u>
<i>Governmental Activities:</i>				
Capital Assets Being Depreciated				
Furniture and Equipment	<u>\$606,881</u>	<u>\$25,799</u>	<u>(\$142,350)</u>	<u>\$490,330</u>
Total Capital Assets, Being Depreciated				
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(487,517)</u>	<u>(71,651)</u>	<u>125,320</u>	<u>(433,848)</u>
Total Accumulated Depreciation				
Total Capital Assets Being Depreciated, Net	<u>119,364</u>	<u>(45,852)</u>	<u>(17,030)</u>	<u>56,482</u>
Governmental Activities Capital Assets, Net	<u><u>\$119,364</u></u>	<u><u>(\$45,852)</u></u>	<u><u>(\$17,030)</u></u>	<u><u>\$56,482</u></u>

* Depreciation Expense was charged to governmental functions as follows:

Regular Instruction	\$21,982
Special Instruction	5,382
Adult/Continuing Instruction	831
Support Services:	
Instructional Staff	9,296
Board of Education	33,740
Fiscal	<u>420</u>
Total Depreciation Expense	<u><u>\$71,651</u></u>

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance at <u>6/30/2005</u>	Increase	Decrease	Balance at <u>6/30/2006</u>	Amount Due In One Year
Compensated Absences	<u>362,863</u>	<u>313,507</u>	<u>362,863</u>	<u>313,507</u>	<u>40,552</u>
Total Long-Term Liabilities	<u><u>362,863</u></u>	<u><u>313,507</u></u>	<u><u>362,863</u></u>	<u><u>313,507</u></u>	<u><u>40,552</u></u>

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. For fiscal year 2006, 11.7% was the portion allocated 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 Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$360,379, \$257,748, and \$252,107, respectively; 58 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$152,156 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability in the respective funds.

B. 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. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

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

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

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

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

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

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. 13 percent was the portion used to fund pension obligations. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$828,507, \$813,386, and \$917,523, respectively; 85 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$126,305 representing the unpaid contribution for fiscal year 2006 is recorded as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Copies can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$63,471.

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

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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 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 2.3 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the latest year available) were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123. The portion of employer contributions used to fund post employment benefits was \$159,724.

NOTE 9 – OPERATING LEASE

The Clermont County Commissioners are responsible for providing space for the office of the Superintendent at the Center. The Center rented space that was determined to be beyond the typical office of the Superintendent from the Clermont County Commissioners for the 2006 fiscal year. The total rent paid for fiscal year 2006 was \$92,529.

Pursuant to ORC Section 3319.19 (D), the Board of Education of County Commissioners is responsible for 20 percent of the final total estimated cost to provide and equip the office of the Superintendent of the Center and to provide heat, light, water and janitorial services for the period beginning 07/01/2005 and ending 06/30/2006; and decline by 20 percent each year until the Service Center bears 100 percent of the cost beginning in fiscal year 2007.

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

NOTE 10- RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2006, the Center contracted with Citizens Insurance for general property insurance. The coverage has a \$1,000 deductible with a \$1,000,000 limit of insurance.

Professional liability is protected by The Ohio School Plan with \$1,000,000 each occurrence, \$3,000,000 aggregate limit. The Center also has an excess liability insurance policy with \$2,000,000 each occurrence, \$2,000,000 aggregate.

Vehicles are covered by Erie Insurance Company with a \$500 deductible for comprehensive and a \$500 deductible for collision.

Public officials bond insurance is provided by Travelers Casualty. The Treasurer, Assistant Treasurer and Accounts Payable Clerk are covered by bonds in the amount of \$25,000.

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

For fiscal year 2006, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Centers is calculated as one experience and a common premium rate is applied to all Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2006, the Center participated in the Clermont County Health Trust (the Trust), an insurance purchasing pool (Note 12) in order to provide life, sick, accident, and other benefits to employees, their dependents, and designated beneficiaries and to set aside funds for such purposes. Any of such benefits, as the Trustee may determine, may be provided in whole or in part through on or more group insurance policies.

NOTE 11 - JOINTLY GOVERNED ORGANIZATION

Hamilton Clermont Cooperative Association - The Center is a participant in the Hamilton Clermont Cooperative Association (H/CCA) which is a computer consortium. H/CCA is an association of 24 public school districts within the boundaries of Hamilton and Clermont Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Centers. The governing board of H/CCA consists of the superintendent and/or treasurers of the participating members. H/CCA is not accumulating significant financial resources nor is it experiencing fiscal distress that may cause an additional financial burden on members in the future. The Center paid H/CCA \$20,357 for services provided during the year. Financial information can be obtained from the fiscal agent, the H/CCA of Boards of Education, Al Porter, Director, at 7615 Harrison Avenue, Cincinnati, Ohio 45231-3107.

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

NOTE 12 - INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan - The 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 year, the participating Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Clermont County Health Trust - The Clermont County Health Trust (Trust), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts.

The Center pays premiums to a third party administrator, which in turn buys the insurance policies from various insurance companies. Upon termination, the Center shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The Center may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P.O. Box 526, Middletown, Ohio 45042.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is not party to legal proceedings.

NOTE 14 - RECEIVABLES

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

Major Funds

General	\$2,385
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Non-major Funds

Alternative School Grant	7,050
ABLE	9,108
Preschool	<u>3,451</u>

Total Non-Major Funds	<u>19,609</u>
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Total All Funds	<u><u>\$21,994</u></u>
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Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
General Fund	\$ 2,802	\$ 0
Total Major Fund	2,802	0
<i>Non-Major Fund:</i>		
Alternative Schools	<u>0</u>	<u>2,802</u>
Total All Funds	<u>\$ 2,802</u>	<u>\$ 2,802</u>

The General fund made advances to Alternative Schools Fund of the Center in anticipation of grant monies to be received by that fund.

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

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
<i>Major Fund</i>		
General	<u>\$10,000</u>	<u>\$0</u>
Total Major Fund	\$10,000	\$0
<i>Non-Major Fund</i>		
Food Service	<u>0</u>	<u>10,000</u>
Total Non-Major Fund	<u>0</u>	<u>10,000</u>
Total	<u>\$10,000</u>	<u>\$10,000</u>

Transfers were made from the General Fund to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 16 – ACCOUNTABILITY

At June 30, 2006, the Alternative School Special Revenue Fund had a deficit cash balance of \$2,802 and the Food Service, Ohio Systematic Initiative, BCII Scanning Equipment, Adult Basic Education and EHA Preschool Grants/Handicapped Special Revenue Funds had deficit fund balances of \$3,201, \$2,681, \$13,532, \$1,698, and \$6,389 respectively, which was created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Clermont County Educational Service Center
2400 Clermont Center Drive
Suite 202
Batavia, Ohio 45103

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clermont County Educational Service Center (the Educational Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 16, 2006 in which we indicated the District implemented GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

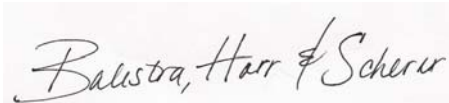
In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control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

Compliance and Other Matters

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

Clermont County Educational Service Center
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements performed in Accordance with *Government Auditing Standards*
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 16, 2006



Mary Taylor, CPA
Auditor of State

CLERMONT COUNTY EDUCATIONAL SERVICE CENTER
CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2007