



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|--|------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements – For the Fiscal Year Ended June 30, 2006: | |
| Statement of Net Assets – Modified Cash Basis | 13 |
| Statement of Activities – Modified Cash Basis | 14 |
| Fund Financial Statements - For the Fiscal Year Ended June 30, 2006: | |
| Statement of Assets and Fund Balances – Modified Cash Basis - Governmental Funds..... | 15 |
| Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances Modified Cash Basis -Governmental Funds | 16 |
| Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds..... | 17 |
| Statement of Changes in Fiduciary Net Assets – Modified Cash Basis Private-Purpose and Investment Trust Funds | 18 |
| Notes to the Basic Financial Statements | 19 |
| Supplemental Information: | |
| Budgetary Comparison Schedules | |
| General Fund | 35 |
| Alternative School Fund..... | 36 |
| Management's Discussion and Analysis..... | 37 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements – For the Fiscal Year Ended June 30, 2005: | |
| Statement of Net Assets – Modified Cash Basis | 47 |
| Statement of Activities – Modified Cash Basis | 48 |
| Fund Financial Statements - For the Fiscal Year Ended June 30, 2005: | |
| Statement of Assets and Fund Balances – Modified Cash Basis - Governmental Funds..... | 49 |
| Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances Modified Cash Basis - Governmental Funds | 50 |

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

TABLE OF CONTENTS
(Continued)

| TITLE | PAGE |
|--|------|
| Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds..... | 51 |
| Statement of Changes in Fiduciary Net Assets – Modified Cash Basis Private-Purpose and Investment Trust Funds | 52 |
| Notes to the Basic Financial Statements | 53 |
| Supplemental Information: | |
| Budgetary Comparison Schedules: | |
| General Fund | 69 |
| Alternative School Fund..... | 70 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Governmental Auditing Standards</i> | 71 |



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, Ohio (the Center), as of and for the years ended June 30, 2006 and 2005, 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.

During 2005, the Center changed from the accrual basis of accounting to the modified cash basis of accounting (see Note 2.B). See Note 3 for the restatement of fund balances required by the change from the modified accrual basis of accounting to the modified cash basis of accounting at June 30, 2004.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, Ohio, as of June 30, 2006 and 2005, and the respective changes in modified cash financial position, thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The supplemental information on the Schedules of Budgetary Comparisons provides additional information and is not a required part of the basic financial statements. We subjected these schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 23, 2007

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net cash assets of governmental activities decreased \$52,826 which represents a 5.11 percent decrease from 2005.
- General cash receipts accounted for \$486,231 or 14.07 percent of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,970,213 or 85.93 percent of total governmental activities cash receipts of \$3,456,444.
- The Center had \$3,509,270 in cash disbursements related to governmental activities; \$2,970,213 of these cash disbursements were offset by program specific charges for services and sales, grants and contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$486,231 were not adequate to provide for these programs.
- The Center's major governmental funds are the General fund and Alternative School fund. The general fund had \$2,769,410 in cash receipts and other financing sources and \$2,860,578 in cash disbursements and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$91,168 from \$771,864 to \$680,696.
- The Alternative School fund had \$345,579 in cash receipts and \$360,408 in cash disbursements. During fiscal year 2006, the Alternative School fund's fund balance decreased \$14,829 from \$225,581 to \$210,752.

Using these Modified Cash Basis Financial Statements

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Reporting the Center as a Whole

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all cash basis financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answers this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

In the Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, the Governmental Activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the General fund and Alternative School fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the Net Assets and fund balances or changes in Net Assets and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities – Modified Cash Basis due to advances between governmental funds being eliminated for reporting in the Statement of Activities – Modified Cash Basis. The governmental fund statements can be found on pages 15-16 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets - Modified Cash Basis and Changes in Fiduciary Net Assets - Modified Cash Basis on pages 17 and 18. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 19-33 of this report.

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole. The table below provides a summary of the Center's net cash assets for 2006. A comparative analysis between 2005 and 2006 is also shown.

| | Net Cash Assets | |
|--|---|---|
| | Governmental Activities 2006 | Governmental Activities 2005 |
| | | |
| Assets | | |
| Equity in pooled cash and cash equivalents | \$980,208 | \$1,033,034 |
| Total assets | 980,208 | 1,033,034 |
| Net Cash Assets | | |
| Restricted | 299,512 | 261,170 |
| Unrestricted | 680,696 | 771,864 |
| Total net cash assets | \$980,208 | \$1,033,034 |

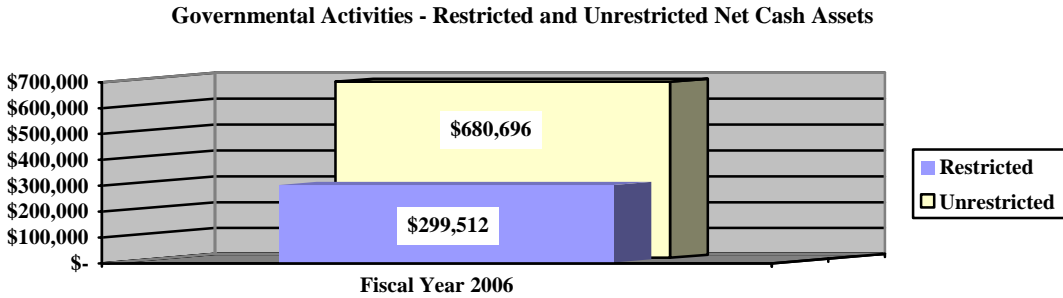
Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's total net cash assets were \$980,208.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

A portion of the Center's net cash assets, \$299,512 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$680,696 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

The graph below presents the Center's governmental activities restricted and unrestricted net assets for fiscal year 2006.



The table below shows the change in net cash assets for fiscal year 2006. A comparative analysis between 2005 and 2006 is also shown.

| Change in Net Cash Assets | | |
|------------------------------------|---|---|
| | Governmental Activities 2006 | Governmental Activities 2005 |
| Cash Receipts | | |
| Program cash receipts: | | |
| Charges for services and sales | \$2,281,660 | \$2,117,910 |
| Operating grants and contributions | 688,553 | 571,455 |
| General cash receipts: | | |
| Grants and entitlements | 446,069 | 479,742 |
| Investment earnings | 35,603 | 15,143 |
| Other | 4,559 | 3,931 |
| Total cash receipts | 3,456,444 | 3,188,181 |
| Cash Disbursements | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | 347,207 | 330,697 |
| Special | 931,550 | 795,876 |
| Support services: | | |
| Pupil | 870,119 | 863,885 |
| Instructional staff | 680,803 | 577,935 |
| Board of education | 26,975 | 33,148 |
| Administration | 347,792 | 319,560 |
| Fiscal | 127,428 | 138,398 |
| Business | 2,434 | 3,992 |
| Operations and maintenance | 8,608 | 9,137 |
| Pupil transportation | 794 | 1,287 |
| Central | 151,307 | 155,911 |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Change in Net Cash Assets

| | Governmental Activities 2006 | Governmental Activities 2005 |
|---------------------------------------|---|---|
| Debt service: | | |
| Principal retirement | 10,870 | 9,984 |
| Interest and fiscal charges | 3,383 | 4,211 |
| Total cash disbursements | 3,509,270 | 3,244,021 |
| Change in net cash assets | (52,826) | (55,840) |
| Net cash assets at beginning of year | 1,033,034 | 1,088,874 |
| Net cash assets at end of year | \$980,208 | \$1,033,034 |

Governmental Activities

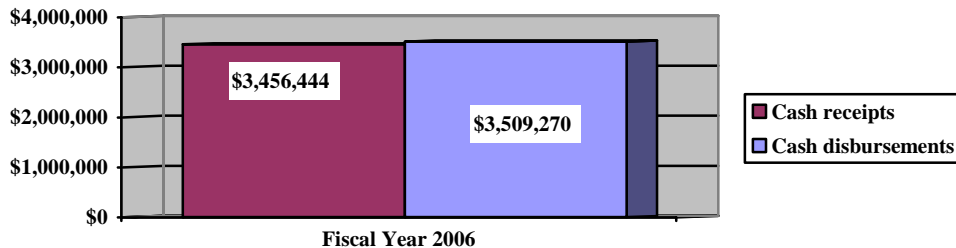
Net assets of the Center's governmental activities decreased \$52,826. Total governmental cash disbursements of \$3,509,270 were offset by program cash receipts of \$2,970,213 and general cash receipts of \$486,231. Program cash receipts supported 84.64 percent of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 66.01 percent of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$2,216,260 or 63.15 percent of total governmental cash disbursements for fiscal 2006.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal year 2006.

Governmental Activities - Cash Receipts and Disbursements



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. A comparative analysis between 2005 and 2006 is also shown.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

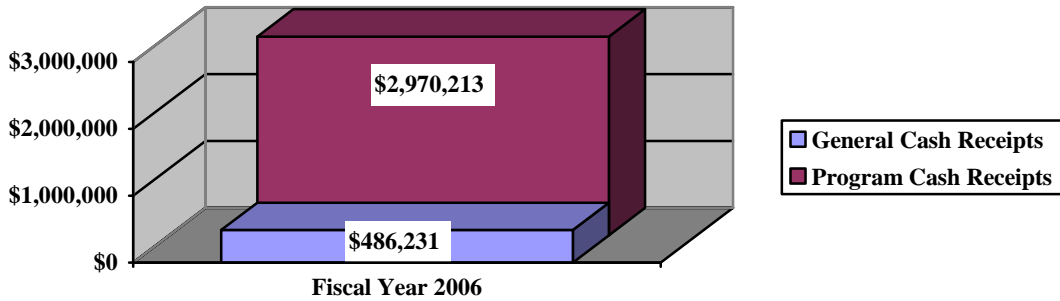
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Activities

| | Total Cost of Services 2006 | Net Cost of Services 2006 | Total Cost of Services 2005 | Net Cost of Services 2005 |
|-----------------------------------|--|--|--|--|
| Program cash disbursements | | | | |
| Instruction: | | | | |
| Regular | \$347,207 | (\$1,693) | \$330,697 | \$2,970 |
| Special | 931,550 | 174,109 | 795,876 | 165,847 |
| Support services: | | | | |
| Pupil | 870,119 | 121,917 | 863,885 | 142,069 |
| Instructional staff | 680,803 | 92,396 | 577,935 | 84,712 |
| Board of education | 26,975 | 26,975 | 33,148 | 33,148 |
| Administration | 347,792 | 50,236 | 319,560 | 45,822 |
| Fiscal | 127,428 | 23,878 | 138,398 | 25,923 |
| Business | 2,434 | 2,434 | 3,992 | 3,992 |
| Operations and maintenance | 8,608 | 5,740 | 9,137 | 6,203 |
| Pupil transportation | 794 | 172 | 1,287 | 926 |
| Central | 151,307 | 28,640 | 155,911 | 28,849 |
| Debt service: | | | | |
| Principal retirement | 10,870 | 10,870 | 9,984 | 9,984 |
| Interest and fiscal charges | 3,383 | 3,383 | 4,211 | 4,211 |
| Total cash disbursements | \$3,509,270 | \$539,057 | \$3,244,021 | \$554,656 |

The graph below presents the Center's governmental activities cash receipts for fiscal year 2006.

Governmental Activities - General and Program Cash Receipts



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

The Center's Funds

The Center's governmental funds reported a combined fund balance of \$980,208, which is lower than last year's total of \$1,033,034. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

| | Fund Cash Balance June 30, 2006 | Fund Cash Balance June 30, 2005 | Increase (Decrease) | Percentage Change |
|--------------------|--|--|--------------------------------|------------------------------|
| General | \$680,696 | \$771,864 | (\$91,168) | (11.81) % |
| Alternative School | 210,752 | 225,581 | (14,829) | (6.57) % |
| Other Governmental | 88,760 | 35,589 | 53,171 | 149.40 % |
| Total | \$980,208 | \$1,033,034 | (\$52,826) | (5.11) % |

General Fund

The Center's general fund cash balance decreased \$91,168. Cash disbursements exceeded cash receipts for fiscal year 2006 by \$88,018. The table that follows assists in illustrating the cash financial activities of the general fund.

| | 2006 Amount | 2005 Amount | Increase (Decrease) | Percentage Change |
|---------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| Cash Receipts | | | | |
| Contract services | \$2,275,829 | \$2,114,191 | \$161,638 | 7.65 % |
| Earnings on investments | 35,603 | 15,143 | 20,460 | 135.11 % |
| Other local revenues | 5,059 | 2,156 | 2,903 | 134.65 % |
| Intergovernmental | 446,069 | 479,742 | (33,673) | (7.02) % |
| Total | 2,762,560 | 2,611,232 | 151,328 | 5.80 % |
| Cash Disbursements | | | | |
| Instruction | 931,550 | 774,652 | 156,898 | 20.25 % |
| Support services | 1,904,775 | 1,868,627 | 36,148 | 1.93 % |
| Debt service | 14,253 | 14,195 | 58 | 0.41 % |
| Total | \$2,850,578 | \$2,657,474 | \$193,104 | 7.27 % |

The most significant increases in cash receipts occurred in contract services and earnings on investments. The increase in contract services receipts was due to an increase in services provided. The increase in earnings on investments was due primarily to the increase of interest rates by the Federal Reserve. The most significant decrease in cash receipts occurred in intergovernmental receipts, which was primarily due to a decrease in state funding. The increase in cash disbursements in instruction was due to the increase in services provided.

Alternative School Fund

The Alternative School fund had \$345,579 in cash receipts and \$360,408 in cash disbursements. During fiscal year 2006, the Alternative School fund's fund balance decreased \$14,829 from \$225,581 to \$210,752.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the Center amended its general fund budgeted revenues and expenditures several times. For the general fund, original budgeted revenues and other financing sources of \$2,912,910 were \$142,000 higher than the final budgeted revenues and other financing sources of \$2,770,910. Actual revenues and other financing sources for fiscal 2006 was \$2,770,461, which is less than final estimated revenues by \$449.

General fund original appropriations (appropriated expenditures including other financing uses) of \$3,143,155 were decreased to \$3,040,645 during the fiscal year. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$2,880,566, which was \$160,079 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

The Center does not record capital assets in the accompanying modified cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2006, the Center had \$42,899 in capital lease obligations. Of this total, \$12,837 is due within one year and \$30,062 is due within greater than one year.

The Center is not permitted to issue debt. See Note 6 to the modified cash basis financial statements for additional information on the Center's capital leases.

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city school districts in Shelby County, state foundation revenue, and grants. Contracts with Shelby County school districts are expected to increase in fiscal year 2007 due to the request of additional services from the school districts, as well as inflation on the cost of doing business. Continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2007. However, the future financial stability of the Center is not without challenges.

The first challenge is the legislation regarding CAFS and the implementation of that system by the Ohio Department of MR/DD. This system will directly affect the Center's method used to reimburse specific special education costs within our programs. At this point, the Center is unable to determine what effect this legislation will have on future CAFS funding.

The second challenge is a change in the provider and funding of preschool aged special needs children. The current agreement in Shelby County is with the Shelby County MR/DD to provide services and raise funding through levy proceeds earmarked for special needs preschool. MR/DD has agreed to keep this contract intact through 2007. At that time, the contract will be re-evaluated and may not continue in the same manner. By law, this could place service and funding obligations back with the Center, directly affecting the Center and school districts served. If this should happen, there will be a need to hire additional staff to service the children and pay additional rental on the space that will be used.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Additionally, there is uncertainty regarding the Center's administrative office space. Under state law, the Shelby County Commissioners are no longer required to provide rent-free space to the Center. Depending on further negotiations, there may be a need to acquire new space or to pay additional rent for our current space.

The next challenge facing the Center is the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact state funding.

The last challenge facing the Center is the need to provide more services to Shelby County school districts with declining state support. The Center constantly strives to provide more services in the most cost efficient manner.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

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EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

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

| | Governmental Activities |
|--|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | <u>\$980,208</u> |
| Total assets | 980,208 |
| Net cash assets: | |
| Restricted for: | |
| Public school support | 6,454 |
| Locally funded programs | 66,289 |
| State funded programs | 3,802 |
| Federally funded programs | 12,215 |
| Other purposes | 210,752 |
| Unrestricted | <u>680,696</u> |
| Total net cash assets | <u><u>\$980,208</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

| | <u>Cash</u> | <u>Program Cash Receipts</u> | | <u>Net</u> |
|--|---------------------|------------------------------|----------------------|------------------------|
| | <u>Disbursement</u> | <u>Charges for</u> | <u>Operating</u> | <u>(Disbursements)</u> |
| | | <u>Services</u> | <u>and</u> | <u>Receipts and</u> |
| | | | <u>Contributions</u> | <u>Changes in Net</u> |
| | | | | <u>Cash Assets</u> |
| | | | | <u>Governmental</u> |
| | | | | <u>Activities</u> |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$347,207 | | \$348,900 | \$1,693 |
| Special | 931,550 | \$757,441 | | (174,109) |
| Support services: | | | | |
| Pupil | 870,119 | 628,129 | 120,073 | (121,917) |
| Instructional staff | 680,803 | 439,501 | 148,906 | (92,396) |
| Board of education | 26,975 | | | (26,975) |
| Administration | 347,792 | 230,372 | 67,184 | (50,236) |
| Fiscal | 127,428 | 103,550 | | (23,878) |
| Business | 2,434 | | | (2,434) |
| Operations and maintenance | 8,608 | | 2,868 | (5,740) |
| Pupil transportation | 794 | | 622 | (172) |
| Central | 151,307 | 122,667 | | (28,640) |
| Debt service: | | | | |
| Principal retirement | 10,870 | | | (10,870) |
| Interest and fiscal charges | 3,383 | | | (3,383) |
| Total governmental activities | <u>\$3,509,270</u> | <u>\$2,281,660</u> | <u>\$688,553</u> | (539,057) |
| General Cash Receipts: | | | | |
| Grants and entitlements not restricted to specific programs | | | | 446,069 |
| Investment receipts | | | | 35,603 |
| Miscellaneous. | | | | 4,559 |
| Total general cash receipts | | | | <u>486,231</u> |
| Change in net cash assets | | | | (52,826) |
| Net assets at beginning of year | | | | <u>1,033,034</u> |
| Net assets at end of year | | | | <u>\$980,208</u> |

See accompanying notes to the

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

| | <u>General</u> | <u>Alternative School</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|------------------|-------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$680,696 | \$210,752 | \$88,760 | \$980,208 |
| Total assets | <u>680,696</u> | <u>210,752</u> | <u>88,760</u> | <u>980,208</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 18,937 | 1,972 | 7,230 | 28,139 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 661,759 | | | 661,759 |
| Special revenue funds | | 208,780 | 81,530 | 290,310 |
| Total fund balances | <u>\$680,696</u> | <u>\$210,752</u> | <u>\$88,760</u> | <u>\$980,208</u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

| | <u>General</u> | <u>Alternative School</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|-------------------------------|---|---|
| Cash receipts: | | | | |
| From local sources: | | | | |
| Contract service revenue | \$2,275,829 | | | \$2,275,829 |
| Earnings on investments | 35,603 | | | 35,603 |
| Extracurricular | | | 5,331 | 5,331 |
| Other local revenues | 5,059 | | 9,194 | 14,253 |
| Intergovernmental - intermediate | 7,055 | 345,579 | 152,608 | 505,242 |
| Intergovernmental - state | 369,839 | | 106,131 | 475,970 |
| Intergovernmental - federal | 69,175 | | 75,041 | 144,216 |
| Total cash receipts | <u>2,762,560</u> | <u>345,579</u> | <u>348,305</u> | <u>3,456,444</u> |
| Cash disbursements: | | | | |
| Instruction: | | | | |
| Regular | | 270,684 | 76,523 | 347,207 |
| Special | 931,550 | | | 931,550 |
| Support services: | | | | |
| Pupil | 773,079 | 32 | 97,008 | 870,119 |
| Instructional staff | 540,847 | 45,256 | 94,700 | 680,803 |
| Board of education | 26,975 | | | 26,975 |
| Administration | 276,924 | 40,815 | 30,053 | 347,792 |
| Fiscal | 127,428 | | | 127,428 |
| Business | 2,434 | | | 2,434 |
| Operations and maintenance | 5,651 | 2,957 | | 8,608 |
| Pupil transportation | 130 | 664 | | 794 |
| Central | 151,307 | | | 151,307 |
| Principal retirement | 10,870 | | | 10,870 |
| Interest and fiscal charges | 3,383 | | | 3,383 |
| Total cash disbursements | <u>2,850,578</u> | <u>360,408</u> | <u>298,284</u> | <u>3,509,270</u> |
| Excess (deficiency) of cash receipts over (under) cash disbursements | (88,018) | (14,829) | 50,021 | (52,826) |
| Other financing sources (uses): | | | | |
| Advances in | 6,850 | | 10,000 | 16,850 |
| Advances out | (10,000) | | (6,850) | (16,850) |
| Total other financing sources (uses) | <u>(3,150)</u> | | <u>3,150</u> | |
| Net change in fund cash balances | (91,168) | (14,829) | 53,171 | (52,826) |
| Fund balances at beginning of year | 771,864 | 225,581 | 35,589 | 1,033,034 |
| Fund balances at end of year | <u><u>\$680,696</u></u> | <u><u>\$210,752</u></u> | <u><u>\$88,760</u></u> | <u><u>\$980,208</u></u> |

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

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

| | <u>Private - Purpose Trust</u> | <u>Investment Trust</u> |
|--|------------------------------------|-----------------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$20,875 | \$962,218 |
| Investments (Stock) | <u>15,452</u> | <u>15,452</u> |
| Total assets | <u><u>36,327</u></u> | <u><u>977,670</u></u> |
| Net assets: | | |
| Held in trust for scholarships | 36,327 | |
| Net assets available to pool participants | <u> </u> | <u>977,670</u> |
| Total net assets | <u><u>\$36,327</u></u> | <u><u>\$977,670</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Private - Purpose Trust | Investment Trust |
|----------------------------------|------------------------------------|-----------------------------|
| | Scholarship | Trust |
| Additions: | | |
| Interest | \$4,170 | \$31,694 |
| Capital transactions | | 458,897 |
| Gifts and contributions | 2,285 | |
| | 6,455 | 490,591 |
| Deductions: | | |
| Distributions to participants | | 31,694 |
| Scholarships awarded | 4,949 | |
| | 4,949 | 31,694 |
| Change in net cash assets | 1,506 | 458,897 |
| Net assets at beginning of year | 34,821 | 518,773 |
| Net assets at end of year | \$36,327 | \$977,670 |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 52 non-certificated and 36 certificated employees to provide services to approximately 4,844 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, food services, 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 organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the Center:

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 29 member school districts. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members' 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 an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center is included as an investment trust fund.

Western Central Ohio Special Education Regional Resource Center (SERRC)

The 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 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 superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates 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 Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

The SOEPC is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shelby County Schools Consortium

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

2. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03(B), the Center prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit procedures) its financial statements and notes in accordance with the modified cash basis of accounting.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenue (such as accounts receivable and revenue billed or provided serves not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are those through which most 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. The following are the Center's major governmental funds:

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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Alternative School Fund- The Alternative School fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

Other governmental funds of the Center are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) 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 therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

D. Basis of Presentation

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 government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the 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. Receipts which are not classified as program receipts are presented as general receipts of the Center. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the modified cash basis or draws from the general receipts of the Center.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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 a more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

E. Budgetary Data

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

1. Appropriations

The annual appropriation resolution is enacted by the Governing Board of the Center at the fund, 2-digit function level of expenditures for the general fund and at the fund level for all other funds which represents the Center's legal level of control,. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

Budgetary controls implemented by the Board require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the levels of control established by the Board.

Any revisions that alter the total of any fund appropriation, or alter total function, 2-digit function appropriations within the general fund, must be approved by the Governing Board of the Center. During the year, several supplemental appropriation measures were enacted.

The budget figures which appear in the schedules of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

F. Cash and Investments

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit, common stock (see below), and a repurchase agreement. Nonparticipating investment contracts such as certificates of deposit are reported at cost. The repurchase agreements are also reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (see Note 4). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$35,603, which includes \$13,095 assigned from other Center funds.

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

K. Fund Balance Reserves

The Center reserves those portions of fund balances which are legally segregated for a specific future use. Unreserved fund balances indicate that the portion of the fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available. As of June 30, 2006, the Center did not have any net assets restricted by enabling legislation.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the basic financial statements.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end the Center had \$75 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all Center deposits was \$ 1,700,615. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2006, \$1,571,024 of the Center's bank balance of \$1,775,724 was exposed to custodial risk as discussed below, while \$204,700 was covered by the Federal Deposit Insurance Corporation.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

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

C. Investments

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

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Market Value</u> | <u>Investment Maturities</u> | |
|------------------------|-----------------------|---------------------|------------------------------|-------------------|
| | | | <u>6 mos or less</u> | <u>Indefinite</u> |
| Stock | \$30,904 | \$361,440 | | \$361,440 |
| Repurchase Agreement | 262,611 | 262,611 | 262,611 | |
| Total Investments | <u>\$293,515</u> | <u>\$624,051</u> | <u>\$262,611</u> | <u>\$361,440</u> |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less, except for the stock portfolio which has been invested as required by the trust agreement.

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 investment or collateral securities that are in the possession of an outside party. Of the Center's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, but not in the name of the Center. The stock portfolio is in the name of the Center and is not subject to custodial credit risk.

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

| <u>Investment Type</u> | <u>Market Value</u> | <u>Percentage to Total</u> |
|------------------------|---------------------|----------------------------|
| Stock | \$361,440 | 57.92% |
| Repurchase Agreement | 262,611 | 42.08% |
| Total Investments | <u>\$624,051</u> | <u>100.00%</u> |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

| Cash per Footnote | Carrying Value |
|-----------------------------|---------------------------|
| Carrying Amount of Deposits | \$1,700,615 |
| Investments | 293,515 |
| Cash on Hand | 75 |
| Total | <u>\$1,994,205</u> |

| Cash per Statement of Net Assets | Carrying Value |
|---|---------------------------|
| Governmental Activities | \$980,208 |
| Private Purpose Trust | 36,327 |
| Investment Trust Fund | 977,670 |
| Total | <u>\$1,994,205</u> |

4. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund. Condensed financial information for the investment pool follows:

**Statement of Net Assets
June 30, 2006**

| | |
|---|--------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,933,301 |
| Investments | 60,904 |
| Total Assets | <u>1,994,205</u> |
| Net Assets Held in Trust for Pool Participants | |
| Internal Portion | 1,016,535 |
| External Portion | 977,670 |
| Total Net Assets Held in Trust for Pool Participants | <u>\$1,994,205</u> |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

4. INVESTMENT POOL (Continued)

**Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2006**

| | |
|--------------------------------|---------------------------|
| Additions | |
| Capital Transactions | \$407,577 |
| Interest | 71,467 |
| Total Additions | <u>479,044</u> |
| Deductions | |
| Distributions to Participants | 71,467 |
| Total deductions | <u>71,467</u> |
| Change in Net Assets | 407,577 |
| Net Assets, Beginning of Year | <u>1,586,628</u> |
| Net Assets, End of Year | <u><u>\$1,994,205</u></u> |

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 3 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

5. INTERFUND TRANSACTIONS

Interfund advances for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

| | |
|---|------------------------|
| Advances from the General Fund to: | |
| Non-major governmental funds | \$10,000 |
| Advances from the nonmajor governmental funds to: | |
| General Fund | 6,850 |
| Total | <u><u>\$16,850</u></u> |

The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. These interfund advances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

6. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the Center entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

6. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

Capital lease payments are reflected as debt service expenditures in the governmental fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in the 2006 fiscal year totaled \$10,870. This amount is reflected as debt service principal retirement in the general fund.

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

| Fiscal Year Ending June 30 | Amount |
|-----------------------------------|----------|
| 2007 | \$15,845 |
| 2008 | 15,633 |
| 2009 | 13,450 |
| 2010 | 2,533 |
| 2011 | 1,380 |
| Total minimum lease payments | 48,841 |
| Less amount representing interest | (5,942) |
| Total | \$42,899 |

7. RISK MANAGEMENT

A. Comprehensive and Employee Health

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. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2006, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended 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 percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" 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 Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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. For fiscal year 2006, the rate was 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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 \$153,396, \$136,845, and \$104,214, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided 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 50 and termination of employment.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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 were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$204,133, \$187,189, and \$167,555 respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$38 made by the Center and \$228 made by plan members.

C. Social Security System

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

9. POST-EMPLOYMENT BENEFITS

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

9. POST-EMPLOYMENT BENEFITS (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount equaled \$15,703 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2006 fiscal year, the Center paid \$71,334 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,742 participants currently receiving health care benefits.

10. CONTINGENCIES

Grants

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

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**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------------|-------------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>(Negative)</u> |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Earnings on investments | \$16,000 | \$35,000 | \$35,603 | \$603 |
| Other | 3,300 | 4,200 | 4,459 | 259 |
| Contract Service Revenue | 2,432,200 | 2,278,700 | 2,275,829 | (2,871) |
| Intergovernmental - Intermediate | 4,800 | 7,100 | 7,055 | (45) |
| Intergovernmental - State | 368,760 | 368,760 | 369,839 | 1,079 |
| Intergovernmental - Federal | 80,000 | 69,000 | 69,175 | 175 |
| Total budgetary basis receipts | <u>2,905,060</u> | <u>2,762,760</u> | <u>2,761,960</u> | <u>(800)</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | 916,930 | 935,000 | 933,897 | 1,103 |
| Support services: | | | | |
| Pupil | 872,800 | 792,000 | 773,636 | 18,364 |
| Instructional staff | 583,994 | 569,394 | 541,457 | 27,937 |
| Board of education | 41,200 | 41,200 | 26,975 | 14,225 |
| Administration | 307,650 | 307,650 | 280,867 | 26,783 |
| Fiscal | 154,800 | 154,850 | 132,630 | 22,220 |
| Business | 30,500 | 30,500 | 16,687 | 13,813 |
| Operations and maintenance | 27,050 | 15,300 | 6,251 | 9,049 |
| Pupil transportation | 1,351 | 1,351 | 490 | 861 |
| Central | 171,880 | 158,300 | 157,657 | 643 |
| Total budgetary basis disbursements | <u>3,108,155</u> | <u>3,005,545</u> | <u>2,870,547</u> | <u>134,998</u> |
| Excess of budgetary basis receipts over (under) budgetary basis disbursements | (203,095) | (242,785) | (108,587) | 134,198 |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 1,000 | 1,000 | 1,051 | 51 |
| Refund of prior year receipts | | (100) | (19) | 81 |
| Advances in | 6,850 | 6,850 | 6,850 | |
| Advances (out) | (35,000) | (35,000) | (10,000) | 25,000 |
| Sale of capital assets | | 300 | 600 | 300 |
| Total other financing sources (uses) | <u>(27,150)</u> | <u>(26,950)</u> | <u>(1,518)</u> | <u>25,432</u> |
| Net change in fund cash balance | (230,245) | (269,735) | (110,105) | 159,630 |
| Fund balance at beginning of year | 734,054 | 734,054 | 734,054 | |
| Prior year encumbrances appropriated | 37,810 | 37,810 | 37,810 | |
| Fund balance at end of year | <u><u>\$541,619</u></u> | <u><u>\$502,129</u></u> | <u><u>\$661,759</u></u> | <u><u>\$159,630</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------|------------------|------------------|---|
| | Original | Final | | |
| Budgetary basis receipts: | | | | |
| Intergovernmental - Intermediate | \$346,800 | \$346,800 | \$345,579 | (\$1,221) |
| Total budgetary basis receipts | 346,800 | 346,800 | 345,579 | (1,221) |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 350,294 | 350,294 | 272,566 | 77,728 |
| Support services: | | | | |
| Pupil | 98 | 98 | 32 | 66 |
| Instructional staff | 51,547 | 51,547 | 45,346 | 6,201 |
| Administration | 43,071 | 43,071 | 40,815 | 2,256 |
| Operations and maintenance | 4,150 | 4,150 | 2,957 | 1,193 |
| Pupil transportation | 740 | 740 | 664 | 76 |
| Total budgetary basis disbursements | 449,900 | 449,900 | 362,380 | 87,520 |
| Net change in fund cash balance | (103,100) | (103,100) | (16,801) | 86,299 |
| Fund balance at beginning of year | 215,760 | 215,760 | 215,760 | |
| Prior year encumbrances appropriated | 9,821 | 9,821 | 9,821 | |
| Fund balance at end of year | \$122,481 | \$122,481 | \$208,780 | \$86,299 |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Shelby County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2005, within the limitations of the Center's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the modified cash basis basic financial statements and the notes to the modified cash basis basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$55,840 which represents a 5.13 percent decrease from 2004.
- General cash receipts accounted for \$498,816, or 15.65 percent, of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,689,365 or 84.35 percent of total governmental activities cash receipts of \$3,188,181.
- The Center had \$3,244,021 in cash disbursements related to governmental activities; \$2,689,365 of these cash disbursements were offset by program specific charges for services and sales, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$498,816 were not adequate to provide for these programs.
- The Center's major governmental funds are the General fund and Alternative School fund. The general fund had \$2,620,132 in cash receipts and other financing sources and \$2,664,324 in cash disbursements and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$44,192 from \$816,056 to \$771,864.
- The Alternative School fund had \$363,954 in cash receipts and \$375,032 in cash disbursements. During fiscal year 2005, the Alternative School fund's fund balance decreased \$11,078 from \$236,659 to \$225,581.

Using these Modified Cash Basis Financial Statements

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the Center as a Whole

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all modified cash basis financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answers this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

In the Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, the Governmental Activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis can be found on pages 47-48 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 43. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the General fund and Alternative School fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities – Modified Cash Basis due to advances between governmental funds being eliminated for reporting in the Statement of Activities – Modified Cash Basis. The governmental fund statements can be found on pages 49-50 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets - Modified Cash Basis and Changes in Fiduciary Net Assets - Modified Cash Basis on pages 51 and 52. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 53-68 of this report.

The Center as a Whole

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

The table below provides a summary of the Center's net cash assets for 2005. A comparative analysis between 2005 and 2004 is also presented.

| | Governmental Activities 2005 | Governmental Activities 2004 |
|--|---|---|
| Net Cash Assets | | |
| Assets | | |
| Equity in pooled cash and cash equivalents | \$1,033,034 | \$1,088,874 |
| Total assets | 1,033,034 | 1,088,874 |
| Net Cash Assets | | |
| Restricted | 261,170 | 272,818 |
| Unrestricted | 771,864 | 816,056 |
| Total net cash assets | \$1,033,034 | \$1,088,874 |

Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's total net cash assets were \$1,033,034.

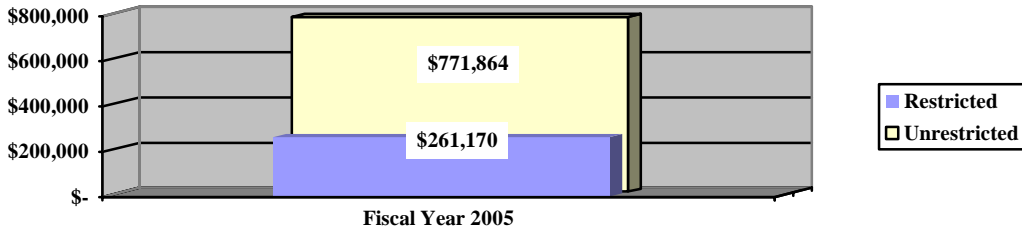
A portion of the Center's net cash assets, \$261,170 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$771,864 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The graph below presents the Center's governmental activities restricted and unrestricted net assets for fiscal year 2005.

Governmental Activities - Restricted and Unrestricted Net Cash Assets



The table below shows the change in net cash assets for fiscal year 2005. In the previous year the Center did not prepare financial statements on modified cash basis therefore comparative information is not available.

| Change in Net Cash Assets | |
|------------------------------------|---|
| | Governmental Activities 2005 |
| Cash Receipts | |
| Program cash receipts: | |
| Charges for services and sales | \$2,117,910 |
| Operating grants and contributions | 571,455 |
| General cash receipts: | |
| Grants and entitlements | 479,742 |
| Investment earnings | 15,143 |
| Other | 3,931 |
| Total cash receipts | 3,188,181 |
| Cash Disbursements | |
| Program expenses: | |
| Instruction: | |
| Regular | 330,697 |
| Special | 795,876 |
| Support services: | |
| Pupil | 863,885 |
| Instructional staff | 577,935 |
| Board of education | 33,148 |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

| Change in Net Cash Assets | |
|---------------------------------------|---|
| | Governmental Activities 2005 |
| Administration | 319,560 |
| Fiscal | 138,398 |
| Business | 3,992 |
| Operations and maintenance | 9,137 |
| Pupil transportation | 1,287 |
| Central | 155,911 |
| Debt service: | |
| Principal retirement | 9,984 |
| Interest and fiscal charges | 4,211 |
| Total cash disbursements | <u>3,244,021</u> |
| Change in net cash assets | (55,840) |
| Net cash assets at beginning of year | <u>1,088,874</u> |
| Net cash assets at end of year | <u><u>\$1,033,034</u></u> |

Governmental Activities

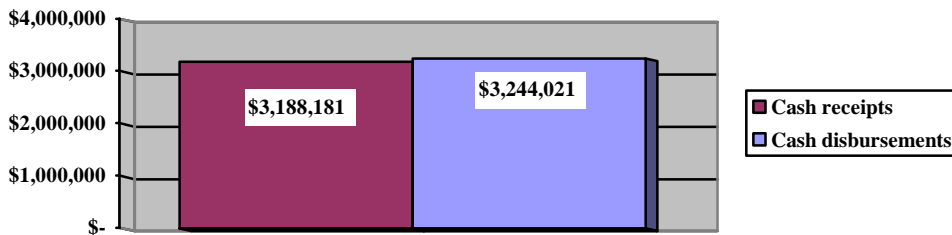
Net cash assets of the Center's governmental activities decreased \$55,840. Total governmental cash disbursements of \$3,244,021 were offset by program cash receipts of \$2,689,365 and general cash receipts of \$498,816. Program cash receipts supported 82.90 percent of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 66.43 percent of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$2,103,253 or 64.83 percent of total governmental cash disbursements for fiscal 2005.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal year 2005.

Governmental Activities - Cash Receipts and Disbursements



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

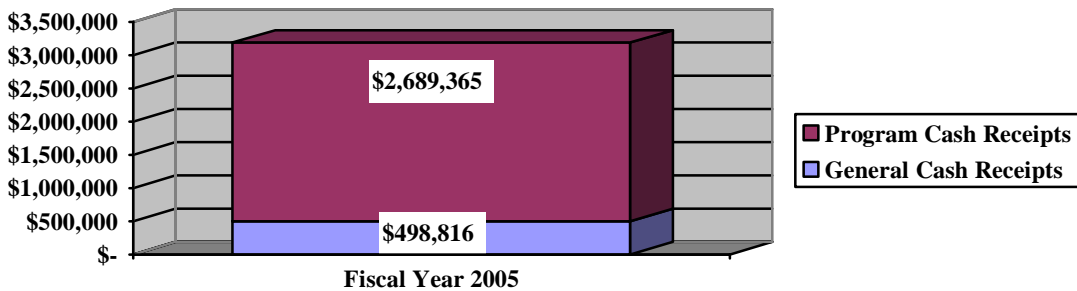
The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported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

Governmental Activities

| | Total Cost of Services 2005 | Net Cost of Services 2005 |
|-----------------------------------|--|--|
| Program cash disbursements | | |
| Instruction: | | |
| Regular | \$330,697 | \$2,970 |
| Special | 795,876 | 165,847 |
| Support services: | | |
| Pupil | 863,885 | 142,069 |
| Instructional staff | 577,935 | 84,712 |
| Board of education | 33,148 | 33,148 |
| Administration | 319,560 | 45,822 |
| Fiscal | 138,398 | 25,923 |
| Business | 3,992 | 3,992 |
| Operations and maintenance | 9,137 | 6,203 |
| Pupil transportation | 1,287 | 926 |
| Central | 155,911 | 28,849 |
| Debt service: | | |
| Principal retirement | 9,984 | 9,984 |
| Interest and fiscal charges | 4,211 | 4,211 |
| Total cash disbursements | \$3,244,021 | \$554,656 |

The graph below presents the Center's governmental activities cash receipts for fiscal year 2005.

Governmental Activities - General and Program Cash Receipts



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The Center's Funds

The Center's governmental funds reported a combined fund cash balance of \$1,033,034, which is lower than last year's total of \$1,088,874. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2005 and 2004.

| | Fund Cash Balance June 30, 2005 | Fund Cash Balance June 30, 2004 | (Decrease) | Percentage Change |
|--------------------|--|--|-------------------|------------------------------|
| General | \$771,864 | \$816,056 | (\$44,192) | (5.42) % |
| Alternative School | 225,581 | 236,659 | (11,078) | (4.68) % |
| Other Governmental | 35,589 | 36,159 | (570) | (1.58) % |
| Total | \$1,033,034 | \$1,088,874 | (\$55,840) | (5.13) % |

General Fund

The Center's general fund balance decreased by \$44,192. The table that follows assists in illustrating the cash financial activities of the general fund.

| | 2005 Amount | 2004 Amount | Increase (Decrease) | Percentage Change |
|---------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| Cash Receipts | | | | |
| Contract services | \$2,114,191 | \$1,416,676 | \$697,515 | 49.24 % |
| Earnings on investments | 15,143 | 7,815 | 7,328 | 93.77 % |
| Other local revenues | 2,156 | 2,579 | (423) | (16.40) % |
| Intergovernmental | 479,742 | 479,156 | 586 | 0.12 % |
| Total | 2,611,232 | 1,906,226 | 705,006 | 36.98 % |
| Cash Disbursements | | | | |
| Instruction | 774,652 | 176,344 | 598,308 | 339.28 % |
| Support services | 1,868,627 | 1,671,231 | 197,396 | 11.81 % |
| Debt service | 14,195 | 9,664 | 4,531 | 46.89 % |
| Total | \$2,657,474 | \$1,857,239 | \$800,235 | 43.09 % |

The most significant increases in cash receipts occurred in contract services and earnings on investments. The increase in contract services receipts was due to an increase in services provided. The increase in earnings on investments was due primarily to the increase of interest rates by the Federal Reserve. The increase in cash disbursements in instruction was due to the increase in services provided.

Alternative School Fund

The Alternative School fund had \$363,954 in cash receipts and \$375,032 in cash disbursements. During fiscal year 2005, the Alternative School fund's fund balance decreased \$11,078 from \$236,659 to \$225,581.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$2,672,100 and final budgeted revenues and other financing sources were \$2,601,300. Actual revenues and other financing sources for fiscal 2005 was \$2,625,645. This represents a \$46,455 decrease over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$2,990,748 were increased to \$3,054,418 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$2,707,647, which is \$346,771 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

The Center does not record capital assets in the accompanying modified cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2005, the Center had \$43,125 in capital lease obligations. Of this total, \$10,012 is due within one year and \$33,113 is due within greater than one year.

The Center is not permitted to issue debt. See Note 7 to the modified cash basis financial statements for additional information on the Center's capital leases.

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city school districts in Shelby County, state foundation revenue, and grants. Contracts with Shelby County school districts are expected to increase in fiscal year 2006 due to the request of additional services from the districts, as well as inflation on the cost of doing business. Continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2006. However, the future financial stability of the Center is not without challenges.

The first challenge is the legislation regarding CAFS and the implementation of that system by the Ohio Department of MR/DD. This system will directly affect the Center's method used to reimburse specific special education costs within our programs. At this point, the Center is unable to determine what effect this legislation will have on future CAFS funding.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The second challenge is a change in the provider and funding of preschool aged special needs children. The current agreement in Shelby County is with the Shelby County MR/DD to provide services and raise funding through levy proceeds earmarked for special needs preschool. MR/DD has agreed to keep this contract intact through 2007. At that time, the contract will be re-evaluated and may not continue in the same manner. By law, this could place service and funding obligations back with the Center, directly affecting the Center and the school districts served. If this should happen, there will be a need to hire additional staff to service the children and pay additional rental on the space that will be used.

Additionally, there is uncertainty regarding the Center's administrative office space. Under state law, the Shelby County Commissioners are no longer required to provide rent-free space to the Center. Depending on further negotiations, there may be a need to acquire new space or to pay additional rent for our current space.

The next challenge facing the Center is the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact state funding.

The last challenge facing the Center is the need to provide more services to Shelby County school districts with declining state support. The Center constantly strives to provide more services in the most cost efficient manner.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

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EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005

| | Governmental Activities |
|--|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | <u>\$1,033,034</u> |
| Total assets | 1,033,034 |
| Net assets: | |
| Restricted for: | |
| Public school support | 5,269 |
| Locally funded programs | 24,855 |
| State funded programs | 4,916 |
| Federally funded programs | 549 |
| Other purposes | 225,581 |
| Unrestricted | <u>771,864</u> |
| Total net assets | <u><u>\$1,033,034</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005**

| | <u>Cash</u> <u>Disbursement</u> | <u>Program Cash Receipts</u> | | <u>Net</u> <u>(Disbursements)</u> <u>Receipts and</u> <u>Changes in Net</u> <u>Cash Assets</u> <u>Governmental</u> <u>Activities</u> |
|--|------------------------------------|---------------------------------------|---|--|
| | | <u>Charges for</u> <u>Services</u> | <u>Operating</u> <u>and</u> <u>Contribution</u> | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$330,697 | | \$327,727 | (\$2,970) |
| Special | 795,876 | \$630,029 | | (165,847) |
| Support services: | | | | |
| Pupil | 863,885 | 648,211 | 73,605 | (142,069) |
| Instructional staff | 577,935 | 388,800 | 104,423 | (84,712) |
| Board of education | 33,148 | | | (33,148) |
| Administration | 319,560 | 211,333 | 62,405 | (45,822) |
| Fiscal | 138,398 | 112,475 | | (25,923) |
| Business | 3,992 | | | (3,992) |
| Operations and maintenance | 9,137 | | 2,934 | (6,203) |
| Pupil transportation | 1,287 | | 361 | (926) |
| Central | 155,911 | 127,062 | | (28,849) |
| Debt service: | | | | |
| Principal retirement | 9,984 | | | (9,984) |
| Interest and fiscal charges | 4,211 | | | (4,211) |
| Total governmental activities | <u>\$3,244,021</u> | <u>\$2,117,910</u> | <u>\$571,455</u> | (554,656) |
| General Cash Receipts: | | | | |
| Grants and entitlements not restricted to specific programs | | | | 479,742 |
| Investment receipts | | | | 15,143 |
| Miscellaneous | | | | 3,931 |
| Total general cash receipts | | | | <u>498,816</u> |
| Change in net cash assets | | | | (55,840) |
| Net assets at beginning of year (restated) | | | | <u>1,088,874</u> |
| Net assets at end of year | | | | <u><u>\$1,033,034</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

| | <u>General</u> | <u>Alternative School</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|------------------|-------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$771,864 | \$225,581 | \$35,589 | \$1,033,034 |
| Total assets | <u>771,864</u> | <u>225,581</u> | <u>35,589</u> | <u>1,033,034</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 37,810 | 9,821 | 15,719 | 63,350 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 734,054 | | | 734,054 |
| Special revenue funds | | 215,760 | 19,870 | 235,630 |
| Total fund balances | <u>\$771,864</u> | <u>\$225,581</u> | <u>\$35,589</u> | <u>\$1,033,034</u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

| | <u>General</u> | <u>Alternative School</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|-------------------------------|---|---|
| Cash receipts: | | | | |
| From local sources: | | | | |
| Contract service revenue | \$2,114,191 | | | \$2,114,191 |
| Earnings on investments | 15,143 | | | 15,143 |
| Extracurricular | | | \$3,719 | 3,719 |
| Other local revenues | 2,156 | \$1,775 | 6,808 | 10,739 |
| Intergovernmental - intermediate | | 362,179 | 104,268 | 466,447 |
| Intergovernmental - state | 368,524 | | 70,770 | 439,294 |
| Intergovernmental - federal | 111,218 | | 27,430 | 138,648 |
| Total cash receipts | <u>2,611,232</u> | <u>363,954</u> | <u>212,995</u> | <u>3,188,181</u> |
| Cash disbursements: | | | | |
| Instruction: | | | | |
| Regular | | 283,926 | 46,771 | 330,697 |
| Special | 774,652 | | 21,224 | 795,876 |
| Support services: | | | | |
| Pupil | 796,988 | 2,902 | 63,995 | 863,885 |
| Instructional staff | 477,883 | 47,241 | 52,811 | 577,935 |
| Board of education | 33,148 | | | 33,148 |
| Administration | 255,322 | 37,524 | 26,714 | 319,560 |
| Fiscal | 138,398 | | | 138,398 |
| Business | 3,992 | | | 3,992 |
| Operations and maintenance | 6,110 | 3,027 | | 9,137 |
| Pupil transportation | 875 | 412 | | 1,287 |
| Central | 155,911 | | | 155,911 |
| Debt service: | | | | |
| Principal retirement | 9,984 | | | 9,984 |
| Interest and fiscal charges | 4,211 | | | 4,211 |
| Total cash disbursements | <u>2,657,474</u> | <u>375,032</u> | <u>211,515</u> | <u>3,244,021</u> |
| Excess (deficiency) of cash receipts over (under) cash disbursements | (46,242) | (11,078) | 1,480 | (55,840) |
| Other financing sources (uses): | | | | |
| Advances in | 8,900 | | 6,850 | 15,750 |
| Advances out | (6,850) | | (8,900) | (15,750) |
| Total other financing sources (uses) | <u>2,050</u> | | <u>(2,050)</u> | |
| Net change in fund cash balances | (44,192) | (11,078) | (570) | (55,840) |
| Fund balances at beginning of year (restated) | 816,056 | 236,659 | 36,159 | 1,088,874 |
| Fund balances at end of year | <u><u>\$771,864</u></u> | <u><u>\$225,581</u></u> | <u><u>\$35,589</u></u> | <u><u>\$1,033,034</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

| | <u>Private - Purpose Trust</u> | <u>Investment Trust</u> |
|--|------------------------------------|-----------------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$19,369 | \$503,321 |
| Investments (Stock) | <u>15,452</u> | <u>15,452</u> |
| Total assets | <u>34,821</u> | <u>518,773</u> |
| Net assets: | | |
| Held in trust for scholarships | 34,821 | |
| Net assets available to pool participants | <u> </u> | <u>518,773</u> |
| Total net assets | <u><u>\$34,821</u></u> | <u><u>\$518,773</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Private - Purpose Trust</u> | <u>Investment Trust</u> |
|----------------------------------|------------------------------------|-----------------------------|
| | <u>Scholarship</u> | <u>Trust</u> |
| Additions: | | |
| Interest | \$4,739 | \$13,653 |
| Gifts and contributions | 2,085 | |
| Total additions | 6,824 | 13,653 |
| Deductions: | | |
| Distributions to participants | | 13,653 |
| Donation to foundation | 6,201 | |
| Capital transactions | | 225,800 |
| Scholarships awarded | 4,650 | |
| Total deductions | 10,851 | 239,453 |
| Change in net assets | (4,027) | (225,800) |
| Net assets at beginning of year | 38,848 | 744,573 |
| Net assets at end of year | \$34,821 | \$518,773 |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 50 non-certificated and 39 certificated employees to provide services to approximately 4,871 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, food services, 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 organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the Center:

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 29 member school districts. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members' 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 an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center is included as an investment trust fund.

Western Central Ohio Special Education Regional Resource Center (SERRC)

The 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 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 superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates 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 Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

The SOEPC is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shelby County Schools Consortium

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

2. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03(B), the Center prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit procedures) its financial statements and notes in accordance with the modified cash basis of accounting.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenue (such as accounts receivable and revenue billed or provided serves not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are those through which most 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. The Center's major funds are the General Fund and the Alternative School Fund.

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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Alternative School Fund - The Alternative School fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

Other governmental funds of the Center are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) 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 therefore not available to support the Center's own programs.

The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

D. Basis of Presentation

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

The government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the 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. Receipts which are not classified as program receipts are presented as general receipts of the Center. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the modified cash basis or draws from the general receipts of the Center.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Budgetary Data

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

1. Appropriations

The annual appropriation resolution is enacted by the Governing Board of the Center at the fund, 2-digit function level of expenditures for the general fund and at the fund level for all other funds, which is the Center's legal level of control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

Budgetary controls implemented by the Board require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the levels of control established by the Board.

Any revisions that alter the total of any fund appropriation, or alter total function, 2-digit function appropriations within the general fund, must be approved by the Governing Board of the Center. During the year, several supplemental appropriation measures were enacted.

The budget figures which appear in the schedules of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

F. Cash and Investments

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit and common stock (see below). Nonparticipating investment contracts such as certificates of deposit are reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (see Note 5). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$15,143, which includes \$2,788 assigned from other Center funds.

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

K. Fund Cash Balance Reserves

The Center reserves those portions of fund balances which are legally segregated for a specific future use. Unreserved fund balances indicate that portion of the fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available. As of June 30, 2005, the Center did not have any net assets restricted by enabling legislation.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the basic financial statements.

3. CHANGE IN ACCOUNTING PRINCIPLE

During 2005, the Center changed from the accrual basis of accounting to the modified cash basis of accounting for auditing purposes (see Note 2.B). The Center has also elected to present the modified cash basis financial statements in a GASB 34 like format. The fund balances as of June 30, 2004 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

For reporting in accordance with GASB 34-like statements, the Center is required to present government-wide financial statements. These statements consolidate all governmental activities in a single column.

The transition from the modified accrual basis of accounting to the modified cash basis of accounting had the following effect on fund balances at June 30, 2004:

| | <u>General</u> | <u>Alternative School</u> | <u>Non-major Governmental</u> | <u>Total</u> |
|--|------------------|-------------------------------|-----------------------------------|---------------------------|
| Fund Balance at June 30, 2004 | \$724,522 | \$187,867 | (\$51,858) | \$860,531 |
| Change in Reporting Basis Adjustments | <u>91,534</u> | <u>48,792</u> | <u>88,017</u> | <u>228,343</u> |
| Restated Fund Balance at June 30, 2004 | <u>\$816,056</u> | <u>\$236,659</u> | <u>\$36,159</u> | <u>1,088,874</u> |
| Governmental Activities Net Assets at June 30, 2004 | | | | <u><u>\$1,088,874</u></u> |

The governmental activities net cash assets at June 30, 2004 equal the restated fund cash balances at June 30, 2004 since there are no adjustments required to convert the fund financial statements to the government-wide financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

- 6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
- 7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
- 8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end the Center had \$75 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all Center deposits was \$1,555,649. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,380,930 of the Center's bank balance of \$1,611,979 was exposed to custodial risk as discussed below, while \$231,049 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2005, the Center had the following investments and maturities:

| Investment Type | Carrying Value | Market Value | Investment Maturities Indefinite |
|------------------------|-----------------------|---------------------|---|
| Stock | \$30,904 | \$344,330 | \$344,330 |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less, except for the stock portfolio which has been invested as required by the trust agreement.

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 investment or collateral securities that are in the possession of an outside party. The stock portfolio is in the name of the Center and is not subject to custodial credit risk.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2005:

| Investment Type | Market Value | Percentage to Total |
|-----------------|--------------|---------------------|
| Stock | \$344,330 | 100.00% |

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

The following is a reconciliation of cash and investments reported in the footnote above to cash as reported on the statement of net assets as of June 30, 2005:

| Cash per Footnote | Cash Value |
|---|-------------------|
| Carrying Amount of Deposits | \$1,555,649 |
| Investments | 30,904 |
| Cash on Hand | 75 |
| Total | \$1,586,628 |
| | |
| Cash per Statement of Net Assets | Cash Value |
| Governmental Activities | \$1,033,034 |
| Private Purpose Trust | 34,821 |
| Investment Trust Fund | 518,773 |
| Total | \$1,586,628 |

5. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. INVESTMENT POOL (Continued)

The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund.

Condensed financial information for the investment pool follows:

**Statement of Net Assets
June 30, 2005**

| | |
|---|---------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,555,724 |
| Investments | 30,904 |
| Total Assets | <u>1,586,628</u> |
| Net Assets Held in Trust for Pool Participants | |
| Internal Portion | 1,067,855 |
| External Portion | 518,773 |
| Total Net Assets Held in Trust for Pool Participants | <u><u>\$1,586,628</u></u> |

**Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2005**

| | |
|--------------------------------|---------------------------|
| Additions | |
| Interest | \$33,445 |
| Total Additions | <u>33,445</u> |
| Deductions | |
| Distributions to Participants | 33,442 |
| Capital Transactions | 103,493 |
| Total deductions | <u>136,935</u> |
| Change in Net Assets | (103,490) |
| Net Assets, Beginning of Year | <u>1,690,118</u> |
| Net Assets, End of Year | <u><u>\$1,586,628</u></u> |

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

6. INTERFUND TRANSACTIONS

Interfund advances for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

| | |
|---|------------------------|
| Advances from the General Fund to nonmajor governmental Funds | \$6,850 |
| Advances from nonmajor governmental funds to General Fund | 8,900 |
| | <u><u>\$15,750</u></u> |

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. INTERFUND TRANSACTIONS (Continued)

The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. These interfund advances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

7. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the Center entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments are reflected as debt service expenditures in the governmental fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in the 2005 fiscal year totaled \$9,984. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

| Fiscal Year Ending June 30 | Amount |
|---------------------------------------|-----------------|
| 2006 | \$13,100 |
| 2007 | 13,100 |
| 2008 | 13,100 |
| 2009 | 10,917 |
| Total minimum lease payments | 50,217 |
| Less amount representing interest | (7,092) |
| Total | <u>\$43,125</u> |

8. RISK MANAGEMENT

A. Comprehensive and Employee Health

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. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2005, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended 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 percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" 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 Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

9. 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. 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. 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.

Plan members are required to contribute 10 percent of their annual covered salary and the Center was required to contribute at an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS Retirement Board. The adequacy of the contribution rates is determined annually.

The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$136,845, \$104,214 and \$87,709, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS

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 provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code.

STRS 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute 14 percent. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

The Center's required contribution for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$187,189, \$167,555, and \$158,014, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$86 made by the Center and \$296 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Governing Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

10. POST-EMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount was \$14,399 during fiscal year 2005.

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

For SERS, coverage is made available to service retirees with 10 or more 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Center, the amount to fund health care benefits, including surcharge, was \$63,827 for the 2005 fiscal year.

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits.

11. CONTINGENCIES

Grants

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------------|-------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Earnings on investments | \$10,000 | \$13,000 | \$15,143 | \$2,143 |
| Other | 2,424 | 2,424 | 2,156 | (268) |
| Contract Service Revenue | 2,159,576 | 2,085,376 | 2,114,191 | 28,815 |
| Intergovernmental - Intermediate | 2,100 | 100 | | (100) |
| Intergovernmental - State | 365,000 | 365,000 | 368,524 | 3,524 |
| Intergovernmental - Federal | 100,000 | 100,000 | 111,218 | 11,218 |
| Total budgetary basis receipts | <u>2,639,100</u> | <u>2,565,900</u> | <u>2,611,232</u> | <u>45,332</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | 747,630 | 767,200 | 766,338 | 862 |
| Support services: | | | | |
| Pupil | 899,450 | 914,450 | 807,677 | 106,773 |
| Instructional staff | 551,508 | 551,508 | 489,295 | 62,213 |
| Board of education | 39,210 | 39,210 | 38,305 | 905 |
| Administration | 328,540 | 328,540 | 257,541 | 70,999 |
| Fiscal | 166,730 | 166,730 | 139,467 | 27,263 |
| Business | 39,500 | 39,500 | 19,097 | 20,403 |
| Operations and maintenance | 27,940 | 27,940 | 6,110 | 21,830 |
| Pupil transportation | 10 | 10 | 1,005 | (995) |
| Central | 159,860 | 168,960 | 161,155 | 7,805 |
| Extracurricular activities | 370 | 370 | | 370 |
| Total budgetary basis disbursements | <u>2,960,748</u> | <u>3,004,418</u> | <u>2,685,990</u> | <u>318,428</u> |
| Excess of budgetary basis receipts over (under) budgetary basis disbursements | (321,648) | (438,518) | (74,758) | 363,760 |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 3,000 | 5,400 | 5,513 | 113 |
| Refund of prior year receipts | | (15,000) | (14,807) | 193 |
| Advances in | 30,000 | 30,000 | 8,900 | (21,100) |
| Advances (out) | (30,000) | (35,000) | (6,850) | 28,150 |
| Total other financing sources (uses) | <u>3,000</u> | <u>(14,600)</u> | <u>(7,244)</u> | <u>7,356</u> |
| Net change in fund cash balance | (318,648) | (453,118) | (82,002) | 371,116 |
| Fund balance at beginning of year | 804,633 | 804,633 | 804,633 | |
| Prior year encumbrances appropriated | 11,423 | 11,423 | 11,423 | |
| Fund balance at end of year | <u><u>\$497,408</u></u> | <u><u>\$362,938</u></u> | <u><u>\$734,054</u></u> | <u><u>\$371,116</u></u> |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|-------------------------|------------------------|-------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Positive (Negative)</u> |
| Budgetary basis receipts: | | | | |
| From local sources: | | | | |
| Other local revenues | | | \$1,775 | \$1,775 |
| Intergovernmental - Intermediate | \$377,537 | \$366,547 | 362,179 | (4,368) |
| Total budgetary basis receipts | <u>377,537</u> | <u>366,547</u> | <u>363,954</u> | <u>(2,593)</u> |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 379,945 | 391,564 | 293,199 | 98,365 |
| Support services: | | | | |
| Pupil | 3,888 | 4,006 | 3,000 | 1,006 |
| Instructional staff | 61,283 | 63,157 | 47,291 | 15,866 |
| Administration | 49,144 | 50,647 | 37,924 | 12,723 |
| Operations and maintenance | 3,923 | 4,043 | 3,027 | 1,016 |
| Pupil transportation | 534 | 550 | 412 | 138 |
| Total budgetary basis disbursements | <u>498,717</u> | <u>513,967</u> | <u>384,853</u> | <u>129,114</u> |
| Net change in fund cash balance | (121,180) | (147,420) | (20,899) | 126,521 |
| Fund balance at beginning of year | 235,122 | 235,122 | 235,122 | |
| Prior year encumbrances appropriated | 1,537 | 1,537 | 1,537 | |
| Fund balance at end of year | <u><u>\$115,479</u></u> | <u><u>\$89,239</u></u> | <u><u>\$215,760</u></u> | <u><u>\$126,521</u></u> |

See accompanying notes to the basic financial statements.



Mary Taylor, CPA

Auditor of State

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, (the Center), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 23, 2007, wherein we noted the Center used a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control 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 February 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the 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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Educational Service Center
Shelby County
Independent Accountants' Report On Internal Control Over
Financial Reporting and on Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

February 23, 2007



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

SHELBY 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 29, 2007**