



**Auditor of State
Betty Montgomery**

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center (the Center) as of and for the fiscal year ended June 30, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2006, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures (the Schedule) is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the Schedule 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.

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

Betty Montgomery
Auditor of State

January 19, 2006

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 (unaudited)

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

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

Overall:

- Total net assets increased \$2.0 million, which represents a 19 percent increase from fiscal year 2004. Increase is due primarily to an increase in revenue and a decrease in expenditures.
- Total assets of governmental activities increased by \$1.7 million, attributed to the \$.9 million increase in receivables and capital assets, and a \$.3 million increase in cash and investments. Increase in receivables is due to the timing of billings. The increase in capital assets is due to the Educational Service Center acquiring real property in an effort to expand services. The increase in cash is due primarily to an increase in interest income.
- General revenues accounted for \$1.3 million or 4 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$31.6 million or 96 percent of total revenues of \$32.9 million.
- Of the Educational Service Center's \$30.9 million in expenses, 98 percent was offset by program specific charges for services. General revenues were used for expenditures not covered by charges for services.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregated view of the Educational Service Center's finances and a longer-term view of those statements. 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 Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Educational Service Center, the General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are reported individually on fund financial statements as major funds.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(unaudited)

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service 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 Educational Service Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant and pupil transportation. The Educational Service Center does not have any business-type activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund, the major funds, begins on page 12. Fund financial reports provide detailed information about the General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the Educational Service Center's most significant funds, and therefore only the General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are presented separate from the other governmental funds.

Governmental Funds

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

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(unaudited)

The Educational Service Center as a Whole

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

Table 1 provides a summary of the Educational Service Center's net assets for 2005 compared to 2004:

TABLE 1
NET ASSETS (in 000's)

	<u>2005</u>	<u>2004</u>
<i>Assets</i>		
Current and Other Assets	\$ 14,534	\$ 13,386
Capital Assets	<u>3,607</u>	<u>3,078</u>
Total Assets	<u>18,141</u>	<u>16,464</u>
<i>Liabilities</i>		
Long-term Liabilities	1,335	1,562
Other Liabilities	<u>4,043</u>	<u>4,159</u>
Total Liabilities	<u>5,378</u>	<u>5,721</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	2,711	1,978
Restricted	890	537
Unrestricted	<u>9,162</u>	<u>8,228</u>
Total Net Assets	<u>\$ 12,763</u>	<u>\$ 10,743</u>

The amount by which the Educational Service Center's assets exceeded its liabilities is called net assets. As of June 30, 2005, the Educational Service Center's net assets were \$12.8 million. Of that amount, approximately \$2.7 million was invested in capital assets, net of debt related to those assets. Another \$.9 million was subject to external restrictions upon its use. The remaining \$9.2 million was unrestricted and available for future use as directed by the Board and the Educational Service Center's Administration.

Table 2 shows the changes in net assets for fiscal year 2005.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(unaudited)TABLE 2
CHANGE IN NET ASSETS (in 000's)

	<u>2005</u>	<u>2004</u>
<i>Revenues</i>		
Program Revenues		
Charges for Services	\$ 23,304	\$ 22,394
Operating Grants and Contributions	8,327	8,531
General Revenues		
Investment Earnings	226	144
Other	1,117	1,829
Total Revenues	<u>32,974</u>	<u>32,898</u>
<i>Program Expenses</i>		
Instruction	10,498	10,355
Support Services:		
Pupils and Instructional Staff	16,025	16,352
Board of Education, Administration, Fiscal and Business	2,612	2,987
Operation and Maintenance of Plant	394	91
Pupil Transportation	388	504
Central	842	1,012
Operation of Non-instructional Services	65	42
Interest and Fiscal Charges	40	-
Unallocated Depreciation	90	38
Total Expenses	<u>\$ 30,954</u>	<u>\$ 31,381</u>
Increase in Net Assets	<u>\$ 2,020</u>	<u>\$ 1,517</u>

Governmental Activities

The Educational Service Center is extremely dependent upon charges for services received from local school districts. Approximately 71 percent of the Educational Service Center's total revenue was received from local school districts.

Instruction comprises 34 percent of the Educational Service Center's expenses for fiscal year 2005. Support services expenses make up 65 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted revenue sources.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(unaudited)

TABLE 3
TOTAL AND COST OF PROGRAM SERVICES
GOVERNMENTAL ACTIVITIES
(in 000's)

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 10,498	\$ (1,003)	\$ 10,355	\$ (954)
Support Services:				
Pupils and Instructional Staff	16,025	1,372	16,352	(525)
Board of Education, Administration, Fiscal and Business	2,612	(149)	2,987	(581)
Operation and Maintenance of Plant	394	(27)	91	(19)
Pupil Transportation	388	(26)	504	(336)
Central	842	124	1,012	(213)
Operation of Non-instructional Services	65	515	42	2,212
Interest and Fiscal Charges	40	(40)	-	-
Unallocated Depreciation	90	(90)	38	(38)
Total Expenses	\$ 30,954	\$ 676	\$ 31,381	\$ (454)

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the Educational Service Center.

Plant operation and maintenance activities involve keeping the grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school and related activities.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes services provided to the community at-large and costs associated with operating a food service program.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(unaudited)

Unallocated depreciation represents current period depreciation charges associated with capital assets that are utilized by several different functions

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the Educational Service Center.

The Educational Service Center's Funds

Information about the Educational Service Center's major funds, starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$31.4 million and expenditures of \$31.7 million. The net change in fund balance was most significant in the General Fund, a decrease of \$.8 million. Unreserved fund balance went from \$ 7.6 million in 2004 to \$6.2 million in 2005.

General Fund Budgeting Highlights

The Educational Service Center is no longer required to formally adopt a budget. As a result, budgetary comparisons have not been included as a part of the basic financial statements.

Capital Assets

At the end of fiscal year 2005, the Educational Service Center had \$3.6 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities, net of accumulated depreciation.

Table 4 shows fiscal year 2005 balances compared to 2004:

TABLE 4
CAPITAL ASSETS (in 000's)

	2005	2004
Land and Improvements	\$ 182	\$ 182
Building and Improvements	3,223	2,648
Equipment	801	723
Vehicles	39	23
Less: Accumulated Depreciation	<u>(638)</u>	<u>(498)</u>
Total	<u>\$ 3,607</u>	<u>\$ 3,078</u>

Overall capital assets increased approximately \$.5 million from fiscal year 2004. Capital asset acquisitions during fiscal year 2005 consisted primarily of the purchase of a building for the purpose of providing space for additional classrooms at a cost of \$.5 million. Other acquisitions included miscellaneous furniture and equipment.

Debt Administration

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 (unaudited)

At June 30, 2005, the Educational Service Center had a note of \$895,987 in outstanding debt. The note was issued during fiscal year 2004 for an original amount of \$1,100,000. The proceeds of the note were used to purchase a building that is to be used for additional classroom space which was needed due to school buildings and facilities that were previously used have been razed or closed. See Note 14 to the basic financial statements for additional information.

For the Future

Legislation has been passed at the State level, which could affect the regionalization of Educational Service Centers. Local districts are also reorganizing and putting to use buildings that were previously rented by the Educational Service Center. As a result, the Educational Service Center has purchased three buildings to accommodate their special education programs. The Educational Service Center has seen positive outcomes from the addition of these buildings and expects this trend to continue.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Montgomery County Educational Service Center, 200 South Keowee, Dayton, Ohio 45402 or call (937) 225-4598.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 7,930,886
Investments	2,780,000
Receivables:	
Intergovernmental	3,746,633
Accrued Interest	45,719
Inventory of supplies and materials	3,297
Prepaid items	26,903
Non-depreciable capital assets	182,098
Depreciable capital assets, net	3,425,336
Total Assets	18,140,872
Liabilities:	
Accounts payable	537,847
Accrued wages and benefits payable	2,593,356
Intergovernmental payable	823,923
Compensated absences payable	87,256
Long Term Liabilities:	
Due within one year	280,015
Due in more than one year	1,055,303
Total Liabilities	5,377,700
Net Assets:	
Invested in capital assets, net of related debt	2,711,447
Restricted for:	
Capital projects	73,261
Other purpose	816,301
Unrestricted	9,162,163
Total Net Assets	\$ 12,763,172

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for services & sales	Operating grants and contributions	Total Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 1,098	\$ -	\$ -	\$ (1,098)
Special	10,497,990	8,787,361	708,038	(1,002,591)
Support Services:				
Pupils	7,187,942	4,994,825	2,553,222	360,105
Instructional staff	8,837,325	5,377,630	4,471,658	1,011,963
Board of education	123,102	72,965	-	(50,137)
Administration	1,552,808	1,408,979	192,491	48,662
Fiscal	739,013	438,436	171,968	(128,609)
Business	196,857	179,096	-	(17,761)
Operation and maintenance of plant	394,140	367,048	-	(27,092)
Pupil transportation	388,395	362,302	-	(26,093)
Central	841,585	753,348	211,802	123,565
Operation of non-instructional services	65,064	562,399	17,487	514,822
Interest and fiscal charges	39,553	-	-	(39,553)
Unallocated depreciation *	89,711	-	-	(89,711)
Total Governmental Activities	\$ 30,954,583	\$ 23,304,389	\$ 8,326,666	\$ 676,472
		General Revenues:		
		Investment earnings		\$ 226,454
		Miscellaneous		1,117,395
		Total General Revenues and Transfers		\$ 1,343,849
		Changes in net assets		2,020,321
		Net assets at beginning of year		10,742,851
		Net assets at end of year		\$ 12,763,172

* - This amount excludes the depreciation that is included in the direct expense of the various functions.

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Miscellaneous State Grants Fund	Miscellaneous Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$ 6,982,741	\$ 1,020,154	\$ 461,283	\$ 2,246,708	\$ 10,710,886
Receivables:					
Intergovernmental	2,473,487	760,564	415,395	97,187	3,746,633
Interfund	2,034,447	-	-	-	2,034,447
Accrued Interest	45,422	-	-	297	45,719
Prepaid Items	26,903	-	-	-	26,903
Inventory of Supplies and Materials	3,297	-	-	-	3,297
Total Assets	\$ 11,566,297	\$ 1,780,718	\$ 876,678	\$ 2,344,192	\$ 16,567,885
<u>Liabilities and Fund Balances:</u>					
Liabilities:					
Accounts Payable	\$ 59,318	341,889	40,735	\$ 95,905	\$ 537,847
Accrued Wages and Benefits	2,434,327	120,144	23,901	14,984	2,593,356
Intergovernmental Payable	712,153	71,531	5,851	34,388	823,923
Interfund Payable	-	909,596	467,319	657,532	2,034,447
Deferred Revenue	1,702,566	81,924	278,215	-	2,062,705
Compensated Absences Payable	87,256	-	-	-	87,256
Total Liabilities	4,995,620	1,525,084	816,021	802,809	8,139,534
Fund Balances:					
Reserved for:					
Encumbrances	357,411	432,576	344,132	127,283	1,261,402
Supplies Inventory	3,297	-	-	-	3,297
Unreserved, Undesignated:					
General Fund	6,209,969	-	-	-	6,209,969
Special Revenue Funds	-	(176,942)	(283,475)	1,340,839	880,422
Capital Projects Funds	-	-	-	73,261	73,261
Total Fund Balances	6,570,677	255,634	60,657	1,541,383	8,428,351
Total Liabilities and Fund Balances	\$ 11,566,297	\$ 1,780,718	\$ 876,678	\$ 2,344,192	\$ 16,567,885

See accompanying notes to the basic financial statement

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:	\$	8,428,351
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,607,434
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds		2,062,705
Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(439,331)	
Long - Term notes payable	(895,987)	
Total	<u> </u>	<u>(1,335,318)</u>
Net Assets of Governmental Activities	\$	<u><u>12,763,172</u></u>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Miscellaneous State Grants Fund	Miscellaneous Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental	\$ 1,376,404	\$ 3,357,294	\$ 721,966	\$ 1,313,534	\$ 6,769,198
Interest	224,981	-	-	1,473	226,454
Tuition and Fees	2,598,322	-	-	-	2,598,322
Charges for Services	19,685,841	-	-	1,020,225	20,706,066
Miscellaneous	1,026,902	-	16,920	73,573	1,117,395
Total Revenues	24,912,450	3,357,294	738,886	2,408,805	31,417,435
Expenditures:					
Current:					
Instruction:					
Regular	-	-	-	1,098	1,098
Special	9,206,904	-	-	1,348,952	10,555,856
Support Services:					
Pupils	5,448,070	1,678,073	-	72,204	7,198,347
Instructional Staff	5,620,132	1,424,314	557,244	1,216,680	8,818,370
Board of Education	79,858	-	-	43,244	123,102
Administration	1,542,087	15,643	-	-	1,557,730
Fiscal	479,856	163,291	27,878	68,296	739,321
Business	196,015	-	-	-	196,015
Plant Operation and Maintenance	401,723	7,313	-	-	409,036
Pupil Transportation	396,529	-	-	-	396,529
Central	804,946	-	-	36,910	841,856
Non-Instructional Services	610,557	-	-	23,042	633,599
Debt Service:					
Principal Retirement	204,013	-	-	-	204,013
Interest and Fiscal Charges	39,553	-	-	-	39,553
Total Expenditures	25,030,243	3,288,634	585,122	2,810,426	31,714,425
Excess of Revenues Over(Under) Expenditures	(117,793)	68,660	153,764	(401,621)	(296,990)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	211	-	-	-	211
Transfers-In	190,000	-	-	893,637	1,083,637
Transfers-Out	(893,637)	-	-	(190,000)	(1,083,637)
Total Other Financing Sources (Uses)	(703,426)	-	-	703,637	211
Change in Fund Balance	(821,219)	68,660	153,764	302,016	(296,779)
Fund Balance at Beginning of Year	7,391,896	186,974	(93,107)	1,239,367	8,725,130
Fund Balance at End of Year	\$ 6,570,677	\$ 255,634	\$ 60,657	\$ 1,541,383	\$ 8,428,351

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net Change in Fund Balances - Total Governmental Funds		\$ (296,779)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital asset additions	680,299	
Current year depreciation	<u>(144,673)</u>	
Total		535,626
Payment of debt is an other financing use in the governmental funds, but the disbursement reduces long-term liabilities in the statement of net assets		204,013
In the statement of activities, only the gain or loss on the sale of capital assets is reported, however, in the governmental funds the proceeds from the sale increase financial resources. Thus, the change in net assets is the book value of the asset sold		(6,675)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,557,468
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		<u>26,668</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 2,020,321</u></u>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	AGENCY FUNDS	INVESTMENT TRUST FUND
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,168,844	\$ 2,384,551
Intergovernmental Receivable	780,370	-
Accrued Interest	-	7,159
Prepaid Items	40,630	-
Depreciable Capital Assets, net	688,337	-
 Total Assets	 \$ 3,678,181	 \$ 2,391,710
 <u>Liabilities</u>		
Accounts Payable	\$ 13,228	
Accrued Wages and Benefits	140,122	
Compensated Absences Payable	46,316	
Intergovernmental Payable	42,066	
Undistributed Assets	3,436,449	
 Total Liabilities	 \$ 3,678,181	
 Net Assets		
Held in Trust for Pool Participants		\$ 2,391,710

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY, OHIO**

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005

Revenues:	
Interest	\$ <u>31,398</u>
Net Increase in Assets Resulting from Operations	31,398
Capital Transactions	<u>412,567</u>
Increase in Assets	443,965
Net Assets Beginning of Year	<u>1,947,745</u>
Net Assets End of Year	<u>\$ 2,391,710</u>

See accompanying notes to the basic financial statements

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Montgomery County Educational Service Center (the Educational Service Center) is located in Dayton, Ohio, the county seat. The Montgomery County Board of Education was established in 1914, and in 1995, the legislature mandated the name change to Educational Service Center. The Educational Service Center supplies supervisory, special education, administrative, and other services to several school Educational Service Centers throughout the Miami Valley. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school Educational Service Centers in areas they are unable to finance or staff independently.

The Montgomery County Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center is staffed by 210 noncertified and 212 certificated full-time teaching personnel that provide services to the local school Educational Service Centers.

Reporting Entity

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

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

The Educational Service Center is associated with two organizations, which are defined as jointly governed and one insurance purchasing pool. These organizations are discussed in Note 16 and 17 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association (MDECA)
Miami Valley Special Education Regional Resource Center (SERRC)

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain Educational Service 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 Educational Service Center at this 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are the Educational Service 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 is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Miscellaneous State Grants Fund

The Miscellaneous State Grants Fund is used to account for various monies received from state agencies which are not classified elsewhere.

Miscellaneous Federal Grants Fund

The Miscellaneous Federal Grants Fund is used to account for various monies received from the federal government either through state agencies or directly, which are not classified elsewhere.

The other governmental funds of the Educational Service Center account for grants and other resources, debt service, and capital projects of the Educational Service Center whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs.

The Educational Service Center has one fund, Investment Trust, which is classified as a trust fund. This trust fund is used to account for investment activity of an investment pool with MDECA. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund is used to account for grant resources administered by individuals outside of the Educational Service Center.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets.

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, and student fees.

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

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

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

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

E. Budget Data

The Educational Service Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. The Educational Service Center discussed fiscal operations and estimates at the beginning of fiscal year 2005, but did not formally adopt a budget. As a result, no budget statements are included as a part of the basic financial statements.

F. Cash and Cash Equivalents

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

During fiscal year 2005, investments consisted of certificates of deposit, which are reported at fair value.

For purposes of the presentation on the financial statement, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$224,981, which includes the general funds allocation as well as the allocations of all funds not specified in the Board's resolution. The non-major funds and investment trust fund also earned interest in the amount of \$1,473 and \$31,398, respectively.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

I. Estimates

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

J. Capital Assets and Depreciation

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five thousand dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture and Equipment	5 – 10 years
Vehicles	5 – 10 years

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Activity

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

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method which states that the Educational Service Center will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated sick leave for all employees after 20 years of current service with the Educational Service Center.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

M. Accrued Liabilities and Long-Term Obligations

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

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

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Assets

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

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

O. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventory of supplies and materials and encumbrances.

NOTE 3 - ACCOUNTABILITY

A. Accountability

The following funds have fund equity deficits as of June 30, 2005:

	<u>Deficit Fund Equity</u>
Special Revenue:	
Food Service	\$ 1,061
Scholarship	131,014
School Net Professional Development	3,528
Distance Learning	<u>1,240</u>
Total Special Revenue	\$ <u>136,843</u>

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2006. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2005, the Educational Service Center implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, which became effective for fiscal years beginning after June 30, 2004. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risk: credit risk, interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risk: custodial credit risk and foreign currency risk.

NOTE 5 - DEPOSITS AND INVESTMENTS

The Educational Service Center's carrying amount of deposits as of June 30, 2005 was \$15,264,281 and bank balance was \$16,037,086. Of the bank balance, \$124,153 was covered by federal depository insurance and \$15,912,933 was collateralized with securities held by the pledging financial institutions agent but not in the Educational Service Center's name. Investments in the financial statements consist solely of non-negotiable certificates of deposit which are classified as deposits in accordance with GASB 40, therefore are included in the bank balances noted above. Although state statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 6 – INVESTMENT POOL

The Educational Service Center serves as a fiscal agent for the Metropolitan Dayton Educational Cooperative Association (MDECA). The Educational Service Center pools the monies of the entity with its own for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of the interest that it earns. The investment pool consists of deposit accounts and certificates of deposit. The certificates of deposit have maturities ranging from July 2005 to June 2006, with interest rates ranging from 2.75% to 3.37%.

Condensed financial information for the investment pool follows:

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 – INVESTMENT POOL (continued)

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

Assets:		
Cash	\$	12,484,281
Investments		2,780,000
Interest Receivable		52,878
Total Assets		<u>15,317,159</u>
Net Assets Held in Trust for Pool Participants		
Internal Portion		2,391,710
External Portion		12,925,449
Total Net Assets Held in Trust for Pool Participants		<u>15,317,159</u>
Revenues:		
Interest		257,852
Expenses:		
Operating Expenses		-
Net Increase in Assets Resulting from Operations		<u>257,852</u>
Capital Transactions		<u>329,529</u>
Increase in Net Assets		587,381
Net Assets Beginning of Year		<u>14,729,778</u>
Net Assets End of Year	\$	<u>15,317,159</u>

NOTE 7 – STATE FUNDING

The Educational Service Center is funded by the State Department of Education from State resources and the school districts to which the Educational Service Center provides services. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. By agreement, the District receives an additional \$8.70 per pupil. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of local school district accounts, intergovernmental grants and interfund transactions. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
General Fund	2,473,487
Scholarship	16,405
Miami Valley Teachers and Leaders	11,525
Entry Year Programs	69,257
Miscellaneous State Grants	760,564
Miscellaneous Federal Grants	<u>415,395</u>
Total Intergovernmental Receivables	<u><u>3,746,633</u></u>

NOTE 9 - CAPITAL ASSETS

	Balance 6/30/04	Additions	Deductions	Balance 6/30/05
<u>Capital Assets, not being depreciated</u>				
Land	<u>\$182,098</u>	<u>-</u>	<u>-</u>	<u>\$182,098</u>
<u>Capital Assets, being depreciated</u>				
Buildings and Improvements	2,647,902	575,000	-	3,222,902
Furniture and Equipment	722,975	89,099	(10,825)	801,249
Vehicles	23,215	16,200	-	39,415
	<u>3,394,092</u>	<u>680,299</u>	<u>(10,825)</u>	<u>4,063,566</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	(69,920)	(63,500)	-	(133,420)
Furniture and Equipment	(421,209)	(76,260)	4,150	(493,319)
Vehicles	(6,578)	(4,913)	-	(11,491)
	<u>(497,707)</u>	<u>(144,673) *</u>	<u>4,150</u>	<u>(638,230)</u>
Governmental Activities Capital Assets, Net	<u>\$3,078,483</u>	<u>535,626</u>	<u>(6,675)</u>	<u>\$3,607,434</u>

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS (Continued)

* - Depreciation expense was charged to governmental functions as follows:

Instruction:

Special 3,724

Support Services:

Pupils 5,614

Instructional Staff 22,629

Administration 16,858

Operation and Maintenance 270

Pupil Transportation 5,867

54,962

Unallocated Depreciation 89,711

Total Depreciation Expense 144,673

Unallocated depreciation is depreciation of the individual school buildings throughout the Educational Service Center, which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center contracted with Harcum Schuett Agency through the Ohio School Plan for property, general liability and fleet coverage. Coverage provided by Harcum Schuett Agency is as follows:

Buildings and Contents – (\$1500 deductible)	\$11,646,984
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Fire	500,000
Medical expense per person	10,000
General aggregate	3,000,000
Products aggregate	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2005, the Educational Service Center participated in the Southwest Ohio Educational Purchasing Council of Worker's Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (see Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school Educational Service Centers is calculated as one experience and a common premium rate is applied to all school Educational Service Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school Educational Service Centers that can meet the GRP's selection criteria. The firm of Comp Management, Inc., provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 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 Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$555,674, \$616,430 and \$554,758, respectively; 86 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$252,560 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds and the Statement of Net Assets.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,410,818, \$1,720,095 and \$1,547,542; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

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

NOTE 12 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005. For the Educational Service Center, this amount equaled \$108,524 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$327,564 for fiscal year 2005.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

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 annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System’s net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

Accumulated Unpaid Sick Leave

Sick leave may be accumulated up to a maximum of 285 days for all Educational Service Center employees. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum of sixty-six days for all employees with ten or more years of current service with the Educational Service Center. The total obligation for sick leave accrual for the Educational Service Center as a whole as of June 30, 2005 was \$382,393

Accumulated Vacation Leave

Vacation leave may be carried over to the succeeding fiscal year but must be used by January 1 of that year. The total obligation for vacation leave accrual for the Educational Service Center as a whole as of June 30, 2005 was \$56,938

B. Health Care Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Connecticut General Life Insurance Company. The Educational Service Center provides health insurance coverage through United Health Care of Ohio, Inc. The employees share the cost of the monthly premium with the Board. The employee premium varies depending on the terms of the union contract and the number of days contracted. Dental insurance is provided through CoreSource.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center’s long-term obligations during fiscal year 2005 were as follows:

	<u>Amount Outstanding 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/05</u>	<u>Amounts Due in One Year</u>
Compensated Absences	\$ 466,000	22,681	49,350	\$ 439,331	\$68,300
Notes Payable, 3.66%	1,100,000	-	204,013	895,987	211,715
Total Governmental Activities	<u>\$ 1,566,000</u>	<u>22,681</u>	<u>253,363</u>	<u>\$ 1,335,318</u>	<u>\$ 280,015</u>

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

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

The long-term note was issued to purchase a building that is to be used for additional classroom space as a result of school buildings and facilities that were previously being used have been razed or closed.

Debt service requirements to maturity are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 211,715	29,689
2007	219,704	21,700
2008	227,919	13,485
2009	<u>236,649</u>	<u>4,756</u>
Total	\$ <u>895,987</u>	\$ <u>69,630</u>

NOTE 15 - INTERFUND ACTIVITY

As indicated on the face of the Combined Balance Sheet, the interfund payable represents funds loaned from the general fund to special revenue funds that receive grants on a reimbursement basis. Funds are advanced to the special revenue funds to prevent negative fund balances that could result due to these funds receiving proceeds after expenses are incurred. It is anticipated that these funds will be repaid during fiscal year 2005 with the reimbursed funds.

For the year ended June 30, 2005, the general fund transferred \$893,637 to the nonmajor special revenue funds for monies used to fund charges associated with providing mental health services to students of the Educational Service Center. These monies were posted to the general fund and then transferred to the fund that incurred the expense. The non-major special revenue funds transferred \$190,000 to the general fund to reimburse the general fund for payments made for CAFS program expenditures that were posted to the general fund. These transfers are permanent and will not be repaid by the funds receiving the transfer.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Darke, Miami, and Montgomery Counties and the Cities of Dayton, Troy, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry C. Woodyard, Executive Director of MDECA at 201 Riverside Drive, Dayton, Ohio 45405.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Miami Valley Special Education Regional Resource Center

The Miami Valley Special Education Regional Resource Center (SERRC) is designed to initiate, expand and improve the delivery of special education services to children with disabilities in Clark, Darke, Greene, Miami, Montgomery, and Preble Counties. The Educational Service Center is the fiscal agent for the SERRC. The SERRC is funded with Title VI-B and State Foundation funds as well as annual assessments from the participating school districts based upon average daily membership (ADM). For GAAP reporting purposes, the SERRC is presented as an agency fund.

The governing board consists of superintendents of participating school districts, two parents of children with disabilities, one representative of a chartered non-public school, one representative of a county board of MR/DD, representatives of universities, and optional members who may include student representatives and persons with disabilities.

NOTE 17 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight members elected by majority vote of all member school Educational Service Centers. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 18 - CONTINGENCIES

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
National School Lunch Program	10.555	04886-LLP4-2004	\$3,134	\$3,134
		04886-LLP4-2005	14,353	19,908
Total United States Department of Agriculture - National School Lunch Program			<u>17,487</u>	<u>23,042</u>
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
<i>Passed Through Montgomery County Educational Service Center to the SERRC</i>				
Special Education Grants to States	84.027	048660-6BSI-2004P	145,763	528,962
		048860-6BAA-2005	7,500	7,292
		048660-6BSI-2005	1,318,882	1,002,193
		048660-6BEC-2005	20,000	
		048660-6BS3-2005	10,000	7,422
Total Special Education Grants to States			<u>1,502,145</u>	<u>1,545,869</u>
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	048660-C1ST-2004	132,000	124,532
Safe and Drug Free Schools and Communities - State Grants	84.186	048660-DRS2-2004	(73)	3,633
LPDC Pathwise	84.276	048660-G2SP-2001	(740)	
Special Education State Personnel Development	84.323	048660-STS1-2005	62,920	67,323
Improving Teacher Quality State Grant	84.367	048660-TRA2-2004	8,990	35,666
		048660-TRSP-2004	134,151	110,120
Total Improving Teacher Quality State Grant			<u>143,141</u>	<u>145,786</u>
<i>Direct:</i>				
Fund for the Improvement of Education - Teaching American History Grant	84.215	U215X030385	322,975	551,632
Total United States Department of Education			<u>2,162,368</u>	<u>2,438,775</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
State Children's Insurance Program Title XIX	93.767	N/A	34,066	34,066
Medicaid Assistance Program	93.778	N/A	524,358	215,701
Total United States Department of Health and Human Services			<u>558,424</u>	<u>249,767</u>
Total Federal Financial Assistance			<u>\$2,738,279</u>	<u>\$2,711,584</u>

The notes to this Schedule are an integral part of this statement.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

Certain federal programs require the Educational Service Center to contribute non-federal (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the schedule.

NOTE C - SUBRECIPIENTS

The Educational Service Center passes-through certain federal assistance received from the U.S. Department of Health and Human Services to other governments. As discussed in Note A, the Educational Service Center records expenditures of federal awards to subrecipients when paid in cash. The subrecipient's agencies have certain compliance responsibilities related to administering these federal programs. Under Federal Circular A-133, the Educational Service Center is responsible for monitoring subrecipients to help ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

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Auditor of State Betty Montgomery

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

Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center (the Center) as of and for the fiscal year ended June 30, 2005 which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 19, 2006. 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 in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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*. In a separate letter to the Center's management, dated January 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

January 19, 2006



Auditor of State Betty Montgomery

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

Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

Compliance

We have audited the compliance of the Montgomery County Educational Service Center (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

January 19, 2006

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.027: Special Education Grants to States CFDA # 84.215: Teaching American History Grant
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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EDUCATIONAL SERVICE CENTER

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2006**