



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

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, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, (the Center), as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, as of June 30, 2007, 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.

As discussed in Note 3 to the financial statements, errors resulting in an overstatement of intergovernmental payable resulted in a restatement of the 2007 beginning balances. Additionally, the investment trust fund has been reclassified to an agency fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008, 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 America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on 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 Governments, and Non-Profit Organizations*, and is also 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 27, 2008

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the Montgomery County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2007. 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 financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- In total, net assets increased \$261,271, which represents a 1.4 percent decrease from fiscal year 2006.
- General revenues accounted for \$3,491,614 in revenue or 11.9 percent of all revenues. Program specific revenues in the form of charges for services, and operating and capital grants, interest and contributions accounted for \$25,934,622 or 88.1 percent of total revenues of \$29,426,236.
- The Educational Service Center had \$29,164,965 in expenses; \$25,934,622 of these expenses was offset by program specific charges for services and operating and capital grants and contributions and interest. General revenues (primarily grants and entitlements) of \$3,491,614 provided for the remainder of these costs.
- The Educational Service Center's major fund is the General Fund. The General Fund had \$22,280,010 in revenues and \$23,721,360 in expenditures. The General Fund's balance decreased \$344,442.

Using the Basic Financial Statements

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 Montgomery County 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 the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the 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 fiscal year 2007?" The statement of net assets and the statement of activities answer 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 fiscal 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, and some not.

In the statement of net assets and the statement of activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where all of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant and pupil transportation.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 11. Fund financial statements provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds

All of 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 fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the 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.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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 fiscal year 2007 compared to fiscal year 2006.

**Table 1
Net Assets**

	2007	Restated 2006	Change
Assets:			
Current and Other Assets	\$17,974,321	\$18,809,013	(\$834,692)
Capital Assets	6,074,955	4,171,153	1,903,802
Total Assets	<u>24,049,276</u>	<u>22,980,166</u>	<u>1,069,110</u>
Liabilities:			
Long-Term Liabilities	2,085,492	1,153,141	932,351
Other Liabilities	3,639,553	3,764,065	(124,512)
Total Liabilities	<u>5,725,045</u>	<u>4,917,206</u>	<u>807,839</u>
Net Assets:			
Investing in Capital Assets, Net of Related Debt	4,530,388	3,486,881	1,043,507
Restricted	2,932,491	3,487,967	(555,476)
Unrestricted	10,861,352	11,088,112	(226,760)
Total Net Assets	<u><u>\$18,324,231</u></u>	<u><u>\$18,062,960</u></u>	<u><u>\$261,271</u></u>

Capital assets increased by \$1,903,802 mainly due to the purchase of the Kettering Building, which was acquired through both a lease purchase of \$1,000,000 and cash payments by the Educational Service Center of \$1,108,220. Current and other assets mainly decreased by \$834,692 due to a decrease in cash and cash equivalents in the Regional Transportation Fund. This fund had a decrease of \$873,127 due to decreased revenues from a reduction in the number of students transported by the Educational Service Center.

Long-term liabilities increased by \$932,351. During fiscal year 2007, the Educational Service Center entered into a new capital lease for Kettering Building for \$1,000,000 as well as forgivable debt with the City of Moraine for \$80,000.

Invested in capital assets, net of related debt increased by \$1,043,507. The Educational Service Center purchased a new building. The Educational Service Center paid cash for over half of the \$2,100,000 building and entered into a capital lease for the remaining \$1,000,000. Restricted net assets decreased by \$555,476. This decrease was mostly due the Regional Transportation program. This program decreased due to a decrease in revenues from a reduction in the number of students transported by the Educational Service Center.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

**Table 2
Changes in Net Assets**

	2007	2006	Change
Revenues:			
Program Revenues:			
Charges for Services	\$20,888,678	\$21,490,455	(\$601,777)
Operating Grants and Contributions	5,041,783	5,386,241	(344,458)
Capital Grants, Interest, and Contributions	4,161	2,610	1,551
Total Program Revenues	25,934,622	26,879,306	(944,684)
General Revenues:			
Grants and Entitlements	2,158,438	2,156,180	2,258
Investment Earnings	855,368	720,301	135,067
Gifts and Donations	875	1,007	(132)
Miscellaneous	476,933	916,280	(439,347)
Total General Revenues	3,491,614	3,793,768	(302,154)
Total Revenues	29,426,236	30,673,074	(1,246,838)
Program Expenses:			
Instruction:			
Special	6,523,867	6,256,977	266,890
Support Services:			
Pupils	7,463,450	7,194,364	269,086
Instructional Staff	8,986,339	8,552,185	434,154
Board of Education	92,452	72,093	20,359
Administration	1,788,059	1,654,522	133,537
Fiscal	656,863	586,618	70,245
Business	449	35,179	(34,730)
Operation and Maintenance of Plant	650,879	557,268	93,611
Pupil Transportation	1,757,702	2,924,016	(1,166,314)
Central	1,015,330	862,162	153,168
Operation of Non-instructional Services	173,828	140,210	33,618
Interest and Fiscal Charges	55,747	29,828	25,919
Unallocated depreciation		89,711	(89,711)
Total Expenses	29,164,965	28,955,133	\$209,832
Increase in Net Assets	261,271	1,717,941	
Net Assets at Beginning of Year	18,062,960	16,345,019	
Net Assets at End of Year	\$18,324,231	\$18,062,960	

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Governmental Activities

Instruction comprises 22.4 percent of expenses. Support services expenses make up 77.6 percent of the expenses.

Charges for services of \$20,888,678 make up 71.0 percent of total revenues of \$29,426,236. Charges for services decreased mainly due to a decrease in the participants within the regional transportation program. Operating Grants and Contributions decreased primarily due to a decrease in intergovernmental revenues in the Miscellaneous State Grants Fund. Miscellaneous revenue decreased due to decreases in reimbursements received during the fiscal year.

Pupil transportation decreased primarily due to the Regional Transportation program having a reduction in the number of students transported by the Educational Service Center.

The statement of activities shows the cost of program services and the charges for services and operating grants and contributions, and capital grants, interest, and contributions 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 State entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007	Restated Total Cost of Services 2006	Restated Net Cost of Services 2006
Instruction	\$6,523,867	\$997,872	\$6,256,977	\$1,013,254
Support Services	22,411,523	(4,100,522)	22,438,407	(2,916,024)
Operation of Non- Instructional Services	173,828	(71,946)	140,210	(53,518)
Interest and Fiscal Charges	55,747	(55,747)	29,828	(29,828)
Unallocated Depreciation			89,711	(89,711)
Total Expenses	<u>\$29,164,965</u>	<u>(\$3,230,343)</u>	<u>\$28,955,133</u>	<u>(\$2,075,827)</u>

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 11. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$29,386,169 and expenditures of \$31,819,398. The net change in fund balance for the fiscal year in the General Fund was a decrease of \$344,442.

The net change in fund balance was caused in the General Fund by a decrease in charges for services due to less from student foundation settlement revenues received as a result of a decrease of students being served.

General Fund Budgeting Highlights

Under Ohio law Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2007 a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2007 the Educational Service Center had \$6,074,955 invested in land, construction in progress, building and improvements, furniture and equipment, and vehicles.

Table 4 shows fiscal year 2007 balances compared to fiscal year 2006.

Table 4
Capital Assets (Net of Depreciation) at June 30,

	<u>2007</u>	<u>2006</u>
Land	\$182,098	\$182,098
Construction in Progress	209,402	
Building and Improvements	4,990,462	2,905,407
Furniture and Equipment	517,726	860,302
Vehicles	175,267	223,346
Totals	<u>\$6,074,955</u>	<u>\$4,171,153</u>

Overall capital assets increased \$1,903,802 from fiscal year 2006 to fiscal year 2007, mainly due to the purchase of the Kettering Building. For more information on capital assets, refer to Note 7 of the basic financial statements.

Debt Administration

At June 30, 2007, the Educational Service Center had \$1,544,567 in total outstanding debt of capital leases and forgivable debt. Refer to Notes 12 and 13 of the basic financial statements for additional information.

Current Financial Issues and Concerns

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 four 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. Some positive outcomes have been additional space for programs and more secure locations for programs which the local districts find favorable.

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 Joni Shoemaker, Treasurer, at Montgomery County Educational Service Center, 200 South Keowee, Dayton, Ohio 45402 or email at mg_treas@mdeca.org.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$15,239,475
Accrued Interest Receivable	184,646
Intergovernmental Receivable	2,499,165
Materials and Supplies Inventory	3,718
Prepaid Items	47,317
Non-depreciable Capital Assets	391,500
Depreciable Capital Assets, Net	5,683,455
Total Assets	24,049,276
 Liabilities:	
Accounts Payable	217,113
Contracts Payable	147,782
Retainage Payable	20,940
Accrued Wages and Benefits Payable	2,540,925
Matured Compensated Absences Payable	65,716
Accrued Interest Payable	34,186
Intergovernmental Payable	612,891
Long-Term Liabilities:	
Due Within One Year	622,679
Due in More Than One Year	1,462,813
Total Liabilities	5,725,045
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,530,388
Restricted for:	
Capital Outlay	80,032
Other Purposes	533,620
Regional Transportation	1,784,267
Miscellaneous State Grant	534,572
Unrestricted	10,861,352
Total Net Assets	\$18,324,231

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants, Interest, and Contributions
				Total Governmental Activities
Governmental Activities:				
Instruction:				
Special	\$6,523,867	\$7,292,717	\$229,022	\$997,872
Support Services:				
Pupils	7,463,450	5,628,390	402,491	(1,432,569)
Instructional Staff	8,986,339	4,219,191	3,075,151	\$4,161 (1,687,836)
Board of Education	92,452	73,398		(19,054)
Administration	1,788,059	930,459	496,880	(360,720)
Fiscal	656,863	347,711	198,394	(110,758)
Business	449			(449)
Operation and Maintenance of Plant	650,879	491,922	97,950	(61,007)
Pupil Transportation	1,757,702	1,084,376	454,458	(218,868)
Central	1,015,330	806,069		(209,261)
Operation of Non-Instructional Services	173,828	14,445	87,437	(71,946)
Interest and Fiscal Charges	55,747			(55,747)
Total Governmental Activities	<u>\$29,164,965</u>	<u>\$20,888,678</u>	<u>\$5,041,783</u>	<u>\$4,161</u> <u>(3,230,343)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				2,158,438
Investment Earnings				855,368
Gifts and Donations				875
Miscellaneous				476,933
Total General Revenues				<u>3,491,614</u>
Change in Net Assets				261,271
Net Assets at Beginning of Year (Restated - Note 3)				18,062,960
Net Assets at End of Year				<u>\$18,324,231</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$10,343,111	\$4,896,364	\$15,239,475
Accrued Interest Receivable	184,646		184,646
Intergovernmental Receivable	1,927,555	571,610	2,499,165
Interfund Receivable	687,517		687,517
Materials and Supplies Inventory	3,718		3,718
Prepaid Items	9,565	37,752	47,317
Total Assets	<u>\$13,156,112</u>	<u>\$5,505,726</u>	<u>\$18,661,838</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$80,635	\$136,478	\$217,113
Contracts Payable	147,782		147,782
Retainage Payable	20,940		20,940
Accrued Wages and Benefits Payable	2,391,442	149,483	2,540,925
Matured Compensated Absences Payable	65,716		65,716
Interfund Payable		687,517	687,517
Intergovernmental Payable	498,860	114,031	612,891
Deferred Revenue	707,381	362,753	1,070,134
Total Liabilities	<u>3,912,756</u>	<u>1,450,262</u>	<u>5,363,018</u>
Fund Balances:			
Reserved for Encumbrances	419,664	345,611	765,275
Unreserved, Undesignated, Reported in:			
General Fund	8,823,692		8,823,692
Special Revenue Funds		3,629,821	3,629,821
Capital Projects Fund		80,032	80,032
Total Fund Balances	<u>9,243,356</u>	<u>4,055,464</u>	<u>13,298,820</u>
Total Liabilities and Fund Balances	<u>\$13,156,112</u>	<u>\$5,505,726</u>	<u>\$18,661,838</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total Governmental Fund Balances \$13,298,820

**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. These assets consist of:

Land	\$182,098	
Construction in Progress	209,402	
Building and Improvements	5,231,722	
Furniture and Equipment	3,528,069	
Vehicles	1,192,698	
Accumulated Depreciation	<u>(4,269,034)</u>	
		6,074,955

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Tuition and Fees	419,548	
Intergovernmental Grants	349,911	
Charges for Services	239,780	
Interest	<u>60,895</u>	
		1,070,134

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Interest on Capital Lease	(34,186)	
Compensated Absences Payable	(540,925)	
Forgiveable Loan	(80,000)	
Capital Lease Payable	<u>(1,464,567)</u>	
		<u>(2,119,678)</u>

Net Assets of Governmental Activities \$18,324,231

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Intergovernmental	\$2,384,138	\$5,099,252	\$7,483,390
Interest	794,473	4,161	798,634
Tuition and Fees	1,862,646	1,029,988	2,892,634
Gifts and Donations	500	375	875
Charges for Services	16,773,819	959,884	17,733,703
Miscellaneous	464,434	12,499	476,933
Total Revenues	<u>22,280,010</u>	<u>7,106,159</u>	<u>29,386,169</u>
Expenditures:			
Current:			
Instruction:			
Special	6,047,534	436,124	6,483,658
Support Services:			
Pupils	6,889,968	546,951	7,436,919
Instructional Staff	4,909,576	3,772,938	8,682,514
Board of Education	92,452		92,452
Administration	1,175,742	513,892	1,689,634
Fiscal	429,719	231,359	661,078
Business	449		449
Operation and Maintenance of Plant	618,941	125,030	743,971
Pupil Transportation	23,781	1,679,234	1,703,015
Central	1,023,037		1,023,037
Operation of Non-Instructional Services	18,347	155,481	173,828
Capital Outlay	2,250,409		2,250,409
Debt Service:			
Principal Retirement	219,705		219,705
Interest and Fiscal Charges	21,700		21,700
Total Expenditures	<u>23,721,360</u>	<u>7,461,009</u>	<u>31,182,369</u>
Excess of Revenues Under Expenditures	<u>(1,441,350)</u>	<u>(354,850)</u>	<u>(1,796,200)</u>
Other Financing Sources (Uses):			
Transfers In	250,968	234,060	485,028
Transfers Out	(234,060)	(250,968)	(485,028)
Proceeds from Capital Lease	1,000,000		1,000,000
Forgiveable Debt Issued	80,000		80,000
Total Other Financing Sources (Uses)	<u>1,096,908</u>	<u>(16,908)</u>	<u>1,080,000</u>
Net Change in Fund Balances	(344,442)	(371,758)	(716,200)
Fund Balances at Beginning of Year (Restated - Note 3)	9,587,798	4,427,222	14,015,020
Fund Balances at End of Year	<u>\$9,243,356</u>	<u>\$4,055,464</u>	<u>\$13,298,820</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net Change in Fund Balances - Total Governmental Funds (\$716,200)

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.

In the current period, these amounts are:

Capital Asset Additions	\$2,379,010	
Depreciation Expense	(440,790)	
Excess of depreciation expense over capital outlay		1,938,220

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

Loss on Disposal of Capital Assets		(34,418)
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Other financing sources, such as proceeds of bonds, loans, and notes, in the governmental funds increase long-term liabilities in the statement of net assets. In the current fiscal year, these amounts consist of:

Proceeds of Loan	(80,000)	
Proceeds of Capital Lease	(1,000,000)	
		(1,080,000)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:

Capital Lease		219,705
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Some revenues that will not be collected for several months after the Educational Service Center's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred Revenues changed by these amounts:

Tuition and Fees	171,362	
Intergovernmental Revenue	(283,169)	
Charges for Services	90,979	
Interest	60,895	
		40,067

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in Accrued Interest Payable	(34,047)	
Increase in Compensated Absences Payable	(72,056)	
		(106,103)

Change in Net Assets of Governmental Activities		<u>\$261,271</u>
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See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,818,172
Intergovernmental Receivable	<u>61,090</u>
Total Assets	<u><u>\$2,879,262</u></u>
Liabilities:	
Undistributed Monies	<u><u>\$2,879,262</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 districts throughout Miami Valley. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The 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 has 142 classified staff employees, 180 certified teaching personnel, and seven administrative employees that provide services to the local, exempted village, and city school districts.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the 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 board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in one jointly governed organization and three insurance purchasing pools. These organizations are discussed in Note 15 to the basic financial statements. These organizations are:

Jointly Governed Organization:

Metropolitan Dayton Educational Cooperative Association (MDECA)

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'

Compensation Group Rating Plan

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Ohio School Plan

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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 governmental 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.

1. Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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.

2. Fund Financial Statements:

During the fiscal 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 by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

1. Governmental Funds:

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

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

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The School District's agency funds account for the activity of Metropolitan Dayton Educational Cooperative Association.

C. Measurement Focus

1. Government-wide Financial Statements:

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

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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.

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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions:

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

Non-exchange 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. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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 non-exchange 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: excess costs, tuition and student fees, grants, and accrued interest.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Deferred Revenue:

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 also 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.

3. Expenses/Expenditures:

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 costs, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all 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's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2007, the Educational Service Center's investments were limited to non-negotiable certificates of deposit, which are reported at cost.

Following Ohio Statutes, 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 2007 amounted to \$794,473 which includes \$302,087 assigned from other Educational Service Center funds.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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/expense is reported in the fiscal year in which services are consumed.

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the statement of net assets.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

I. Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except 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>
Building and Improvements	50 years
Furniture and Equipment	5-10 years
Vehicles	5-10 years

J. 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, compensated absences 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 fiscal year. Capital leases and loans that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

K. 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 eligible employees with more than one year of service.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid. The un-matured portion of the liability is not reported.

L. 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. Net assets restricted for other purposes include federal and State grants restricted to expenditures for specified purposes.

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

The government-wide statement of net assets reports \$2,932,491 of restricted net assets, of which none is restricted by enabling legislation.

M. Fund Balance Reserves

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

N. Internal Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Estimates

The preparation of the 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.

P. Budgetary Process

No budgetary information is presented because the Board did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are no longer required to prepare a budget.

3. RESTATEMENT OF NET ASSETS/FUND BALANCE

During fiscal year 2007, the Educational Service Center performed a revaluation of their capital assets, resulting in the following restatement of net assets at June 30, 2006.

	Net Assets
Net Assets, June 30, 2006	\$18,494,592
Restatement of Intergovernmental Payable	(637,029)
Restatement of Capital Assets	205,397
Net Assets, June 30, 2006, as Restated	\$18,062,960

There was a restatement in the Other Governmental Funds due to intergovernmental payable being incorrectly reported.

	General Fund	Other Governmental Funds	Total
Fund Balances, June 30, 2006	\$9,587,798	\$5,064,251	\$14,652,049
Restatement of Intergovernmental Payable		(637,029)	(637,029)
Adjusted Fund Balance, June 30, 2006	\$9,587,798	\$4,427,222	\$14,015,020

Also, the Educational Service Center's MDECA Fund was reported as an Investment Trust Fund and is now reported as an Agency Fund.

4. DEPOSITS AND INVESTMENTS

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

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

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

At June 30, 2007, the Educational Service Center had no investments.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Education Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

6. RECEIVABLES

Receivables at June 30, 2007, consisted of accrued interest, intergovernmental, and interfund. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
State Institute for Reading Instruction	\$210,253
SIG State Improvement	23,584
Entry Year	2,600
School Improvement	680
Tuition and Student Fees	987,465
Title VI B	307,541
Customer Sales and Services	967,042
Total Intergovernmental Receivables	<u><u>\$2,499,165</u></u>

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Adjusted Balance 6/30/06	Additions	Deductions	Balance 6/30/07
Governmental Activities:				
Capital Assets, not Being Depreciated:				
Land	\$182,098			\$182,098
Construction in Progress		\$209,402		209,402
Total Capital Assets, not Being Depreciated	<u>182,098</u>	<u>209,402</u>		<u>391,500</u>
Capital Assets, Being Depreciated:				
Building and Improvements	3,073,410	2,158,312		5,231,722
Furniture and Equipment	3,631,260	11,296	(\$114,487)	3,528,069
Vehicles	1,192,698			1,192,698
Total Capital Assets, Being Depreciated	<u>7,897,368</u>	<u>2,169,608</u>	<u>(114,487)</u>	<u>9,952,489</u>
Less Accumulated Depreciation:				
Building and Improvements	(168,003)	(73,257)		(241,260)
Furniture and Equipment	(2,770,958)	(319,454)	80,069	(3,010,343)
Vehicles	(969,352)	(48,079)		(1,017,431)
Total Accumulated Depreciation	<u>(3,908,313)</u>	<u>(440,790)</u>	<u>80,069</u>	<u>(4,269,034)</u>
Capital Assets, Being Depreciated, Net	<u>3,989,055</u>	<u>1,728,818</u>	<u>(34,418)</u>	<u>5,683,455</u>
Governmental Activities Capital Assets, Net	<u>\$4,171,153</u>	<u>\$1,938,220</u>	<u>(\$34,418)</u>	<u>\$6,074,955</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$27,586
Support Services:	
Pupils	27,045
Instructional Staff	242,920
Administration	77,259
Fiscal	4,950
Operation and Maintenance of Plant	6,884
Pupil Transportation	54,146
Total Depreciation Expense	<u>\$440,790</u>

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. 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 2007, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 15). The Educational Service Center contracts for property, fleet, and liability insurance with OSP.

Coverage provided by Hylant Group is as follows:

Buildings and Contents - (\$1,000 deductible)	\$8,792,735
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 three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

B. Workers' Compensation

For fiscal year 2007, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. RISK MANAGEMENT (Continued)

C. Medical Benefits

For fiscal year 2007, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 15). Medical coverage is purchased through United Health Care of Ohio, Inc. The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participants is calculated and a premium rate is applied to all participants in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to participants that can meet the MBP's selection criteria.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$474,457, \$524,033, and \$555,674, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad St., Columbus, Ohio 43215-3771, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,530,779, \$1,492,826, and \$1,410,818, respectively; 84.52 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$69,860 made by the Educational Service Center and \$84,973 made by the plan members.

10. POST-EMPLOYMENT BENEFITS

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

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$117,752 for fiscal year 2007.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$236,704.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty-three days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time. All personnel leave must be used by fiscal year end and cannot be carried forward.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. OTHER EMPLOYEE BENEFITS (Continued)

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 285 days for all personnel. Upon retirement, employees with ten or more years of current service with the Educational Service Center receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and disbursement insurance to employees through Insurance Company of North America. Dental insurance is provided through Superior Dental Care.

C. Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2007 and in prior years, the Educational Service Center entered into lease-purchase agreements for the purchase of buildings. As part of the agreement for the buildings, National City Bank, as lessor, deposited \$1,000,000 in fiscal year 2007 and \$1,100,000 in fiscal year 2006 into a separate bank account in the Educational Service Center's name. These proceeds were entirely spent from the bank accounts by June 30, 2007 and June 30, 2006, respectively.

Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases"*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by leases have been capitalized in the statement of net assets for governmental activities in the amount of \$2,100,000. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2007 totaled \$219,705.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value June 30, 2007
Asset:			
Building	\$2,100,000	(\$81,167)	\$2,018,833

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

December 31, 2007	Total Payments
2008	\$469,069
2009	469,063
2010	227,664
2011	227,664
2012	227,664
Total	1,621,124
Less: Amount Representing Interest	(156,557)
Present Value of Minimum Lease Payments	\$1,464,567

13. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2007 were as follows:

	Amount Outstanding 6/30/06	Additions	Deletions	Amount Outstanding 6/30/07	Due in One Year
Governmental Activities:					
Compensated Absences Payable	\$468,869	\$128,788	\$56,732	\$540,925	\$200,989
Capital Lease Obligation	684,272	1,000,000	219,705	1,464,567	410,785
Forgiveable Loan 2007, 8%		80,000		80,000	10,905
Total Governmental Activities Long-Term Obligations	\$1,153,141	\$1,208,788	\$276,437	\$2,085,492	\$622,679

On November 10, 2006, the ESC entered into a loan agreement with the City of Moraine for \$80,000 for the purpose of making improvements to the 3500 Kettering Boulevard building. The loan was issued for six years with the final maturity at November 10, 2012. If the ESC incurs payroll subject to income taxation by the City of Moraine in the aggregate amount of \$2,000,000 per annum each year of the six year loan agreement, the City of Moraine shall forgive 16.5 percent of the loan principal and the interest on the loan each year.

Compensated absences will be paid from the General, Special Trust, Miscellaneous State Grants, Miscellaneous Federal Grants, Regional Transportation, Title VI-B, and Title VI Funds. Capital leases will be paid from the General Fund.

Principal requirements to retire general obligation debt at June 30, 2007, are as follows:

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

Forgiveable Debt			
Fiscal year Ending June 30,	Principal	Interest	Total
2008	\$10,905	\$6,400	\$17,305
2009	11,778	5,528	17,306
2010	12,720	4,585	17,305
2011	13,738	3,568	17,306
2012	14,836	2,469	17,305
2013	16,023	1,282	17,305
Total	\$80,000	\$23,832	\$103,832

14. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The General Fund had an interfund receivable at June 30, 2007, of \$687,517 while the Other Governmental Funds had interfund payables of \$687,517. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant and scholarship monies. When the monies are finally received, the grant or scholarship fund reimburses the General Fund for the initial advance. All are expected to be repaid within one year.

The General Fund had transfers out to the Other Governmental Funds of \$234,060. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds. The Other Governmental Funds transferred \$250,968 to the General Fund and Other Governmental Funds for corrections of mis-posted student foundation monies.

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organization

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 Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member 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 the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA \$70,373 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

B. Insurance Purchasing Pools

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 Darke County Educational Service Center and eight other members elected by majority vote of all member Educational Service Centers. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Ohio School Plan - The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a thirteen member Board of Directors consisting of member superintendents and treasurers, as well as Dave Harcum, an independent consultant of Hylant Group, Inc, a partner of the Hylant Group, Inc. The Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims.

16. ACCOUNTABILITY

The following funds have deficit fund balances as of June 30, 2007:

	<u>Deficit Fund Balances</u>
Food Service	\$93,233
Teacher Development	527
Head Start	50
Distance Learning	1,240
Miscellaneous Federal Grants	48,098

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficit in these funds to be corrected in early fiscal year 2008. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

17. 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, 2007.

18. SUBSEQUENT EVENTS

The Board of Education adopted a resolution on August 13, 2007, authorizing the swap of ownership between the Educational Service Center and Dayton Public Schools for the Paint Building and Clinton Building.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

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>				
<i>Nutrition Cluster:</i>				
National School Breakfast Program	10.553	048660-05PU-2006 048660-05PU-2007	\$7,456 17,835	\$7,456 17,835
Total National School Breakfast Program			<u>25,291</u>	<u>25,291</u>
National School Lunch Program	10.555	04886-LLP4-2006 04886-LLP4-2007	17,207 42,139	17,207 42,139
Total National School Lunch Program			<u>59,346</u>	<u>59,346</u>
Total United States Department of Agriculture - Nutrition Cluster			<u>84,637</u>	<u>84,637</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-2005 048660-6BEC-2005 048660-6BS3-2005 048660-6BSI-2007	292,671 (876) 42,374 <u>1,474,225</u>	514,034 135,860 42,374 <u>1,274,134</u>
Total Special Education Grants to States			<u>1,766,020</u>	<u>1,966,402</u>
Title I Grants to Local Educational Agencies	84.010	048660-C1ST-2007	10,169	5,715
Special Education State Personnel Development	84.323	048660-STS2-2005 048660-STS3-2005	75,394 112,964	83,967 112,428
Total Special Education State Personnel Development			<u>188,358</u>	<u>196,395</u>
Improving Teacher Quality State Grant	84.367	048660-TRSP-2005		3,930
<i>Direct:</i>				
Fund for the Improvement of Education	84.215	U215X030385		<u>112,336</u>
Total United States Department of Education			<u>1,964,547</u>	<u>2,284,778</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Tri-County Educational Service Center</i>				
Medicaid Assistance Program	93.778	N/A	825	
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medicaid Assistance Program		N/A		<u>124,770</u>
Total United States Department of Health and Human Services - Medicaid Assistance Program			<u>825</u>	<u>124,770</u>
Total Federal Financial Assistance			<u>\$2,050,009</u>	<u>\$2,494,185</u>

The accompanying notes are an integral part of this Schedule.

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C -- MATCHING REQUIREMENTS

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 27, 2008 wherein we noted the Center restated beginning balances and reclassified a fund. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Center's management in a separate letter dated February 27, 2008.

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

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*.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 27, 2008



Mary Taylor, CPA

Auditor of State

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 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 its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. 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 its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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**Internal Control Over Compliance
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that the Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Mary Taylor, CPA
Auditor of State

February 27, 2008

**EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States CFDA # 84.027
(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



Mary Taylor, CPA
Auditor of State

MONTGOMERY COUNTY 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
MAY 20, 2008**