MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, Ohio (the Center), as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

January 28, 2013

The discussion and analysis of Montgomery County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net assets of governmental activities increased $1,372,254 or 7.2%.

- General revenues accounted for $1,553,552 in revenue or 5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $29,923,081 or 95% of total revenues of $31,476,633 .

- The Center had $30,104,379 in expenses related to governmental activities; $29,923,081 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $1,553,552 were also used to provide for these programs.

Overview of the 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 Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the 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 Center's most significant funds with all other nonmajor funds presented in total in one column. The General Fund, Title VI-B Fund and Miscellaneous Federal Grants Fund are the major funds of the Center.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Government-wide Financial Statements 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 year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services and interest and fiscal charges.

Fund Financial Statements

The analysis of the Center's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 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.

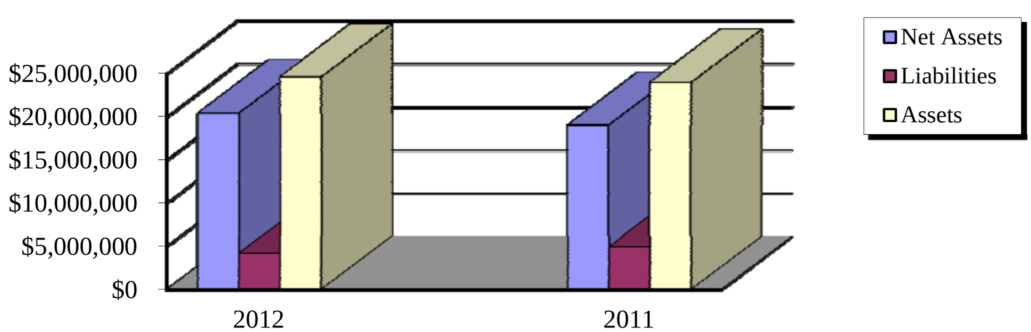
Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2012 compared to 2011:

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Assets:		
Current and Other Assets	$18,288,571	$17,806,694
Capital Assets	6,324,809	6,152,791
Total Assets	24,613,380	23,959,485
Liabilities:		
Other Liabilities	3,229,913	4,000,862
Long-Term Liabilities	979,291	926,701
Total Liabilities	4,209,204	4,927,563
Net Assets:		
Invested in Capital Assets	6,308,785	5,904,028
Restricted	2,152,672	1,557,990
Unrestricted	11,942,719	11,569,904
Total Net Assets	$20,404,176	$19,031,922



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Center's assets exceeded liabilities by $20,404,176.

At year-end, capital assets represented 26% of total assets. Capital assets, net of related debt to acquire the assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2012, was $6,308,785 . These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, $2,152,672 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Capital Assets increased mainly due to current year additions exceeding current year depreciation expense. Total Liabilities decreased mainly due to decreases in accrued wages and benefits. This was mainly due to more people retiring and more budget cuts from the Center during fiscal year 2012 as opposed to fiscal year 2011.

Table 2 shows the changes in net assets for fiscal years 2012 and 2011.

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Table 2
Changes in Net Assets

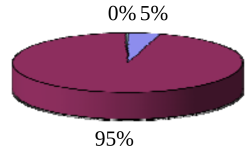
	Governmental Activities 2012	Governmental Activities 2011
Revenues:		
Program Revenues		
Charges for Services	$24,541,915	$25,555,448
Operating Grants, Contributions	5,381,166	3,974,134
General Revenues:		
Grants and Entitlements	1,428,915	1,705,219
Other	124,637	109,142
Total Revenues	31,476,633	31,343,943
Program Expenses:		
Instruction	6,072,575	6,601,633
Support Services:		
Pupil and Instructional Staff	17,980,189	18,044,813
School Administrative, General Administration, Fiscal and Business	2,352,567	2,985,687
Operations and Maintenance	1,512,595	1,765,549
Pupil Transportation	958,497	1,130,084
Central	1,000,008	961,406
Operation of Non-Instructional Services	225,413	255,747
Interest and Fiscal Charges	2,535	12,911
Total Program Expenses	30,104,379	31,757,830
Change in Net Assets	1,372,254	(413,887)
Net Assets Beginning of Year	19,031,922	19,445,809
Net Assets End of Year	$20,404,176	$19,031,922

The Center revenues are mainly from three sources. Charges for services, operating grants and contributions and grants and entitlements comprised 95% of the Center's revenues for governmental activities.

Instruction comprises 20% of governmental program expenses. Support services expenses were 79% of governmental program expenses. All other expenses including interest expense were 1%. Interest expense was attributable to the outstanding bonds and borrowing for capital projects.

Charges for services and Operating Grants made up 95% of revenues for governmental activities for the Center in 2012. The Center's reliance upon charges for services and operating grants is demonstrated by the following graph:

Revenue Sources	2012	Percent of Total
General Grants	$1,428,915	4.5%
Program Revenues	29,923,081	95.1%
Investment Earnings	25,637	0.1%
Other Revenues	99,000	0.3%
	$31,476,633	100.0%



Revenues in total increased in 2012 as compared to 2011 due to an increase in grant monies received throughout the fiscal year. Total instruction expenses decreased in 2012 as compared to 2011 due to the Center's ongoing effort to cut costs.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction	$6,072,575	$6,601,633	$69,329	($220,469)
Support Services:				
Pupil and Instructional Staff	17,980,189	18,044,813	(378,567)	(1,562,146)
School Administrative, General Administration, Fiscal and Business	2,352,567	2,985,687	17,223	(254,216)
Operations and Maintenance	1,512,595	1,765,549	130,205	113,434
Pupil Transportation	958,497	1,130,084	87,873	(87,707)
Central	1,000,008	961,406	(31,007)	(89,844)
Operation of Non-Instructional Services	225,413	255,747	(73,819)	(114,389)
Interest and Fiscal Charges	2,535	12,911	(2,535)	(12,911)
Total Expenses	$30,104,379	$31,757,830	($181,298)	($2,228,248)

The Center's Funds

The Center has three major governmental funds: the General Fund, Title VI-B Fund and Miscellaneous Federal Grants Fund. Assets of these funds comprise $17,168,721 (90%) of the total $19,092,996 governmental funds assets.

General Fund: Fund balance at June 30, 2012 was $12,481,801 including $11,763,358 of unassigned balance. The primary reason for the increase in fund balance was a result of a decrease in the Center's instructional expenditures.

Title VI-B Fund: Fund balance at June 30, 2012 was ($15,196). The primary reason for the decrease in fund balance was a result of a increase in the Center's support services expenditures.

Miscellaneous Federal Grants Fund: Fund balance at June 30, 2012 was $57,267. The primary reason for the increase in fund balance was a result of an increase in the Center's intergovernmental revenue.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2012 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

Capital Assets and Debt Administration

Capital Assets

At the fiscal year end 2012, the Center had $6,324,809 invested in land, construction in progress, buildings and improvements, furniture and equipment. Table 4 shows fiscal 2012 balances as compared to fiscal 2011:

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

	Governmental Activities	
	2012	2011
Land	$182,098	$182,098
Construction in Progress	60,058	31,477
Buildings and Improvements	5,169,967	5,030,248
Furniture and Equipment	478,999	405,655
Vehicles	433,687	503,313
Total Net Capital Assets	$6,324,809	$6,152,791

Capital assets increased in fiscal year 2012 due to current year additions exceeding current year depreciation expense.

See Note 6 to the basic financial statements for further details on the Center's capital assets.

Debt

At June 30, 2012, the Center had $16,024 in Loans outstanding and $16,024 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2012	2011
Forgivable Loan	$16,024	$30,860
Capital Leases	0	217,903
Total Loan and Capital Leases Payable	$16,024	$248,763

See Note 11 and 12 to the basic financial statements for further details on the Center's outstanding debt.

For the Future

Legislation has been passed at the State level which could affect the regionalization of Educational Service Centers. Local districts are also reorganizing and putting buildings to use that were previously rented by the Center. As a result, the Center has purchased four buildings to accommodate special education programs. The Center has seen positive outcomes from the addition of these buildings and expects this trend to continue. These positive outcomes include additional space for programs and more secure locations for programs which the local districts find favorable.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joni Shoemaker, Treasurer, at Montgomery County Center, 200 South Keowee, Dayton, Ohio 45402 or email at mg_treas@mdeca.org.

Montgomery County Educational Service Center
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$15,605,884
Restricted Cash and Investments	5,340
Receivables:	
Accounts	1,212,938
Intergovernmental	1,464,409
Nondepreciable Capital Assets	242,156
Depreciable Capital Assets, Net	6,082,653
Total Assets	24,613,380
Liabilities:	
Accounts Payable	357,455
Accrued Wages and Benefits	2,842,405
Retainage Payable	5,311
Accrued Interest Payable	815
Contracts Payable	23,927
Long-Term Liabilities:	
Due Within One Year	234,258
Due In More Than One Year	745,033
Total Liabilities	4,209,204
Net Assets:	
Invested in Capital Assets	6,308,785
Restricted for:	
Federal Grants	785,674
Regional Transportation	1,326,228
Other Purposes	40,770
Unrestricted	11,942,719
Total Net Assets	$20,404,176

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2012

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Special	$6,072,575	$5,750,872	$391,032	$69,329
Support Services:				
Pupil	8,798,190	8,056,409	148,667	(593,114)
Instructional Staff	9,181,999	5,559,751	3,836,795	214,547
General Administration	88,273	80,903	0	(7,370)
School Administration	1,631,817	1,404,987	201,226	(25,604)
Fiscal	629,057	428,639	244,022	43,604
Business	3,420	10,013	0	6,593
Operations and Maintenance	1,512,595	1,428,565	214,235	130,205
Pupil Transportation	958,497	869,925	176,445	87,873
Central	1,000,008	930,094	38,907	(31,007)
Operation of Non-Instructional Services	225,413	21,757	129,837	(73,819)
Interest and Fiscal Charges	2,535	0	0	(2,535)
Total Governmental Activities	$30,104,379	$24,541,915	$5,381,166	(181,298)

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	1,428,915
Unrestricted Contributions	35,600
Investment Earnings	25,637
Other Revenues	63,400
Total General Revenues	1,553,552
Change in Net Assets	1,372,254
Net Assets Beginning of Year	19,031,922
Net Assets End of Year	$20,404,176

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2012

	General	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	$13,620,886	$177,406	$454,990	$1,352,602	$15,605,884
Restricted Cash and Investments	5,340	0	0	0	5,340
Receivables:					
Accounts	1,102,337	0	0	110,601	1,212,938
Intergovernmental	0	489,457	513,880	461,072	1,464,409
Interfund	804,425	0	0	0	804,425
Total Assets	15,532,988	666,863	968,870	1,924,275	19,092,996
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	197,704	3,496	148,928	7,327	357,455
Accrued Wages and Benefits	2,565,340	174,171	48,698	54,196	2,842,405
Compensated Absences	79,526	0	0	0	79,526
Retainage Payable	5,311	0	0	0	5,311
Contracts Payable	23,927	0	0	0	23,927
Interfund Payable	0	203,177	510,518	90,730	804,425
Deferred Revenue	179,379	301,215	203,459	394,335	1,078,388
Total Liabilities	3,051,187	682,059	911,603	546,588	5,191,437
Fund Balances:					
Nonspendable	29	0	0	0	29
Restricted	0	0	57,267	1,392,302	1,449,569
Assigned	718,414	0	0	0	718,414
Unassigned	11,763,358	(15,196)	0	(14,615)	11,733,547
Total Fund Balances	12,481,801	(15,196)	57,267	1,377,687	13,901,559
Total Liabilities and Fund Balances	$15,532,988	$666,863	$968,870	$1,924,275	$19,092,996

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2012

Total Governmental Fund Balance		$13,901,559
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.		6,324,809
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	$899,009	
Other	179,379	
		1,078,388
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(815)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(883,741)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		(16,024)
Net Assets of Governmental Activities		$20,404,176

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tuition and Fees	$18,811,425	$0	$0	$745,877	$19,557,302
Investment Earnings	27,087	0	0	0	27,087
Intergovernmental	917,307	2,110,488	1,240,151	1,001,131	5,269,077
Charges for Services	5,558,528	0	0	364,191	5,922,719
Other Revenues	83,064	0	0	1,100	84,164
Total Revenues	25,397,411	2,110,488	1,240,151	2,112,299	30,860,349
Expenditures:					
Current:					
Instruction:					
Special	6,043,961	0	0	350	6,044,311
Support Services:					
Pupil	8,444,930	188,925	147,409	14,867	8,796,131
Instructional Staff	5,641,699	1,689,191	865,133	830,452	9,026,475
General Administration	88,273	0	0	0	88,273
School Administration	1,422,598	16,389	78,926	92,893	1,610,806
Fiscal	348,238	154,760	51,620	48,451	603,069
Business	2,876	0	0	0	2,876
Operations and Maintenance	1,235,262	195,994	0	41,351	1,472,607
Pupil Transportation	21,880	0	0	873,716	895,596
Central	990,506	0	31,088	0	1,021,594
Operation of Non-Instructional Services	156	0	0	223,926	224,082
Capital Outlay	287,939	0	0	0	287,939
Debt Service:					
Principal Retirement	217,903	0	0	0	217,903
Interest and Fiscal Charges	9,762	0	0	0	9,762
Total Expenditures	24,755,983	2,245,259	1,174,176	2,126,006	30,301,424
Excess of Revenues Over (Under) Expenditures	641,428	(134,771)	65,975	(13,707)	558,925
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	0	0	0	5,700	5,700
Transfers In	0	0	0	96,023	96,023
Transfers (Out)	(96,023)	0	0	0	(96,023)
Total Other Financing Sources (Uses)	(96,023)	0	0	101,723	5,700
Net Change in Fund Balance	545,405	(134,771)	65,975	88,016	564,625
Fund Balance Beginning of Year	11,936,396	119,575	(8,708)	1,289,671	13,336,934
Fund Balance End of Year	$12,481,801	($15,196)	$57,267	$1,377,687	$13,901,559

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balance - Total Governmental Funds		$564,625
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	$383,028	
Depreciation Expense	(200,351)	
		182,677
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.		(10,659)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Interest	(1,450)	
Intergovernmental	637,771	
Other	(34,873)	
		601,448
Repayment of Capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		217,903
The City of Moraine forgave the Educational Service Center's current year portion of the loan. On the statement of activities the Educational Service Center recorded this as gifts and donations revenue.		
Forgivable Debt Principal		14,836
In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due.		7,227
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		(205,803)
Change in Net Assets of Governmental Activities		$1,372,254

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2012

	Agency
Assets:	
Equity in Pooled Cash and Investments	$2,101,514
Receivables:	
Accounts	52,773
Total Assets	2,154,287
Liabilities:	
Accounts Payable	26,270
Other Liabilities	2,128,017
Total Liabilities	$2,154,287

See accompanying notes to the basic financial statements.

Note 1 – Description of the Center and Reporting Entity

The Montgomery County Educational Service Center (the 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 Center. The Center supplies supervisory, special education, administrative, and other services to several school districts throughout the Miami Valley. The 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 Center has 177 classified staff employees, 214 certified teaching personnel, and six administrative employees that provide services to the local, exempted village, and city school districts.

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 Center consists of all funds, departments, boards, and agencies that are not legally separate from the 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 Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. The Center has no component units.

The Center participates in two jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:
- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council

Insurance Purchasing Pools:
Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
Ohio School Plan

Public Entity Shared Risk Pool
Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

Note 2 – Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The Center allocates certain indirect costs. The indirect costs are included as part of the program expense reported for individual functions and activities. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, 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 Center.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The agency funds are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets.

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. 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 are the Center's major governmental funds:

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

Title VI-B Fund - The Title VI-B Fund accounts for restricted federal special education grants that assist in providing an appropriate public education to all children with disabilities.

Miscellaneous Federal Grants Fund - The Miscellaneous Federal Grants Fund accounts for various other restricted federal grants.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary funds are agency funds. The Center's agency funds account for the activity of the Metropolitan Dayton Educational Cooperative Association as well as a flexible spending and flower account for employees.

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 and the financial statements of the fiduciary funds are prepared using 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.

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 that 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 Center, available means expected to be received within 60 days of fiscal year-end.

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

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.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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.

Equity in Pooled Cash and Investments

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

During fiscal year 2012, the Center's investments were limited to nonnegotiable 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 2012 amounted to $27,087.

Interfund Activity

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

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated on the governmental activities columns of the statement of net assets.

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

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.

Capital Assets

The 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 Center maintains a capitalization threshold of $5,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not 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:

Description	Estimated Lives
Buildings and Improvements	50 years
Furniture and Equipment	5-10 years
Vehicles	5-10 years

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.

Compensated Absences

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

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

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 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 whose use is restricted to specified purposes.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center's $2,152,672 in restricted net assets, none were restricted by enabling legislation.

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.

Budgetary Process

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

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

> Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.
>
> Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.
>
> Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.
>
> Assigned – resources that are intended to be used for specific purposes as approved through the Center's formal purchasing procedure by the Treasurer.
>
> Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Note 3 – Equity in Pooled Cash and Investments

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

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

Inactive deposits are public deposits that the Board of Education 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 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) above;

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement 40, "Deposit and Investment Risk Disclosures".

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2012, none of the Center's bank balance was exposed to credit risk as the entire balance is covered by the Federal Deposit Insurance Corporation and pooled collateral from each financial institution.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2012, the Center had no investments.

Note 4 – State and Local School District Funding

The 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 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 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 Center. The 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 Center also receives funding from the State Department of Education in the amount of $33.36 times the average daily membership of the Center. Average daily membership includes the total student counts of all local school districts within the Center's territory and all of the 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 Center.

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

Note 5 – Receivables

Receivables at June 30, 2012, consisted of accounts, intergovernmental and interfund. All receivables are considered collectible in full and will be received within one year.

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Note 6 – Capital Assets

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated:				
Land	$182,098	$0	$0	$182,098
Construction in Progress	31,477	296,315	267,734	60,058
Total Capital Assets, not being depreciated	213,575	296,315	267,734	242,156
Capital Assets, being depreciated:				
Buildings and Improvements	5,887,564	267,734	0	6,155,298
Furniture and Equipment	3,638,706	86,713	10,422	3,714,997
Vehicles	828,373	0	106,627	721,746
Total Capital Assets, being depreciated:	10,354,643	354,447	117,049	10,592,041
Totals at Historical Cost	10,568,218	650,762	384,783	10,834,197
Less Accumulated Depreciation:				
Buildings and Improvements	857,316	128,015	0	985,331
Furniture and Equipment	3,233,051	13,369	10,422	3,235,998
Vehicles	325,060	58,967	95,968	288,059
Total Accumulated Depreciation	4,415,427	200,351	106,390	4,509,388
Governmental Activities Capital Assets, Net	$6,152,791	$450,411	$278,393	$6,324,809

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$15,782
Support Services:	
Pupil	28,425
Instructional Staff	40,567
School Administration	5,740
Fiscal	4,593
Business	544
Operations and Maintenance	40,460
Pupil Transportation	48,109
Central	14,800
Operation of Non-Instructional Services	1,331
Total Depreciation Expense	$200,351

Note 7 – Risk Management

Property and Liability

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool (See Note 14). Each individual participant 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 Center pays this annual premium to the OSP. The Center contracts for property, fleet, and liability insurance with OSP.

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.

Workers' Compensation

For fiscal year 2012, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

Medical Benefits

For fiscal year 2012, the Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (Note 14). The Center pays monthly premiums to the Trust for employee medical and vision insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Note 8 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $499,741, $422,384 and $457,076, respectively. The full amount has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Center's contributions to STRS for the years ended June 30, 2012, 2011 and 2010 were \$1,757,923, \$1,726,779 and \$2,095,029, respectively; 88% has been contributed for fiscal years 2012 and 100% has been contributed for 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$129,704 made by the Center and \$92,646 made by the plan members.

Note 9 – Post-Employment Benefits

School Employees Retirement System

Plan Description – The Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was $35,800. During fiscal year 2012, the Center paid $75,158 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were $21,642, $145,419, and $110,727, respectively. The full amount has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were $29,512, $27,181, and $27,181 respectively. The full amount has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description – The Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were $135,225, $132,791, and $161,156 respectively. For fiscal year 2012, 88% has been contributed, with the balance being reported in accrued wages and benefits. The full amount has been contributed for fiscal years 2011 and 2010.

Note 10 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All 12 month employees earn 10 to 23 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 personal leave must be used by fiscal year-end and cannot be carried forward.

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 10 or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days.

Insurance Benefits

The Center provides life insurance and accidental death and disbursement insurance to employees through Sun Life Assurance Company of Canada. Dental insurance is provided through Dental Care Plus.

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.

Note 11 – Capitalized Leases - Lessee Disclosure

In prior fiscal years, the Center entered into lease-purchase agreements for the purchase of buildings.

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.

Capital assets acquired by leases have been capitalized in the statement of net assets for governmental activities in the amount of $1,000,000 to buildings and improvements. A corresponding liability was recorded on the statement of net assets for governmental activities. As of June 30, 2012, the capital lease was paid off.

Note 12 – Long-Term Obligations

The changes in the Center's long-term obligations during fiscal year 2012 were as follows:

	Interest Rate	Beginning Outstanding	Additions	Deductions	Ending Outstanding	Due In One Year
Governmental Activities:						
Compensated Absences		$677,938	$447,547	$162,218	$963,267	$218,234
Capital Leases		217,903	0	217,903	0	0
Forgivable Loan 2007	8%	30,860	0	14,836	16,024	16,024
Total Governmental Activities Long-Term Liabilities		$926,701	$447,547	$394,957	$979,291	$234,258

On November 10, 2006, the Center 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 Center 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. In fiscal year 2012, the City of Moraine forgave $14,836 of the principal.

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

Principal requirements to retire general obligation debt at June 30, 2012, are as follows:

Fiscal Year	Forgivable Loan		
Ending June 30	Principal	Interest	Total
2013	$16,024	$1,282	$17,306

Note 13 – Interfund Balances/Transfers

Interfund transactions at June 30, 2012, consisted of the following individual fund receivables and payables and transfers:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$804,425	$0	$0	$96,023
Title VI-B	0	203,177	0	0
Miscellaneous Federal Grants	0	510,518	0	0
Other Governmental Funds	0	90,730	96,023	0
Total All Funds	$804,425	$804,425	$96,023	$96,023

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is completed.

All interfund balances are expected to be paid within one year.

Note 14 – Jointly Governed Organizations, Insurance Purchasing Pools and Public Entity Shared Risk Pool

Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The 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 in a geographic area determined by the Ohio Department of Education. 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 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 $50,034 for services provided during the fiscal year. Financial information can be obtained from Dean Reineke, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of over 100 school districts and educational service centers in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture, and supplies purchased by SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2012, the Center paid $2,000 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan - The Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was 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 sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a 13 member Board of Directors consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales and marking to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust - The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the

Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Note 15 – Accountability

The following funds had deficit fund balances as of June 30, 2012:

Other Governmental Funds:	
Miami Valley Teacher and Leader	$4,133
Miscellaneous State Grants	10,482
Title VI-B	15,196

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2013. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 16 – Fund Balances

Fund balance is classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Fund Balances	General	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total
Nonspendable:					
Unclaimed Funds	$29	$0	$0	$0	$29
Total Nonspendable	29	0	0	0	29
Restricted for:					
Title VI-B	0	0	0	0	0
Miscellaneous Federal Grants	0	0	57,267	0	57,267
Food Service	0	0	0	5,026	5,026
Scholarship	0	0	0	5,353	5,353
Rotary	0	0	0	30,391	30,391
Regional Transportation	0	0	0	1,341,020	1,341,020
ECO Training	0	0	0	6,912	6,912
Resident Educator Transition Program	0	0	0	3,600	3,600
Total Restricted	0	0	57,267	1,392,302	1,449,569
Assigned to:					
Encumbrances	718,414	0	0	0	718,414
Total Assigned	718,414	0	0	0	718,414
Unassigned (Deficit)	11,763,358	(15,196)	0	(14,615)	11,733,547
Total Fund Balance	$12,481,801	($15,196)	57,267	$1,377,687	$13,901,559

Note 17 – Contingencies

Grants

The Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2012.

Litigation

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

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass Through Grantor Program Title	**Federal CFDA Number**	**Receipts**	**Expenditures**
U.S. Department of Agriculture			
Passed through Ohio Department of Education			
Nutrition Cluster:			
School Breakfast Program	10.553	$42,217	$42,217
National School Lunch Program	10.555	70,406	70,406
Total Nutrition Cluster		112,623	112,623
Total U.S. Department of Agriculture		112,623	112,623
U.S. Department of Defense			
Direct			
Air Force Defense Research Sciences Program	12.800	318,212	252,380
Total U.S. Department of Defense		318,212	252,380
Institue of Museum and Library Services			
Passed through State Library of Ohio			
Grants to States	45.310	33,138	33,138
Total Institue of Museum and Library Services		33,138	33,138
U.S. Department of Education			
Passed through Ohio Department of Education			
ARRA Title I Grants to Local Educational Agencies, Recovery Act	84.389	9,278	8,952
Special Education Cluster:			
Special Education_Grants to States	84.027	2,134,632	2,249,448
Special Education Preschool Grants	84.173	39,550	38,229
Total Special Education Cluster		2,174,182	2,287,677
Rehabilitation Services Demonstration and Training Programs	84.235	135,531	106,650
Special Education - State Personnel Development	84.323	79,046	82,634
Improving Teacher Quality State Grants	84.367	112,567	112,602
ARRA State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	479,884	495,423
Total U.S. Department of Education		2,990,488	3,093,938
Corporation for National and Community Service			
Passed through Ohio Community Service Council			
ARRA - AmeriCorps, Recovery Act	94.006	236,441	233,419
Total Corporation for National and Community Service		236,441	233,419
Total Federal Financial Assistance		$3,690,902	$3,725,498

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 28, 2013. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

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www.ohioauditor.gov

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, federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

January 28, 2013

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Montgomery County Educational Service Center, Montgomery County (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 could directly and materially affect each of the Montgomery County Educational Service Center's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Center's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

In our opinion, the Montgomery County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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, and others within the Center. It is not intended for anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

January 28, 2013

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012

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)?**	Yes
(d)(1)(ii)	**Were there any 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 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(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education Grants to States: CFDA #84.027 Special Education Preschool Grants: CFDA #84.173 ARRA State Fiscal Stabilization Fund – Race-To-The-Top Incentive Grants, Recovery Act: CFDA #84.395 ARRA AmeriCorps, Recovery Act: CFDA #94.006
(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

FINDING NUMBER 2012-001

Material Weakness – Intergovernmental Receivable

The Center prepared its annual financial statements in accordance with generally accepted accounting principles (GAAP), which included accruals for intergovernmental receivable.

Revenue resulting from non-exchange transactions in which the Center receives value without directly giving equal value in return is recognized in the fiscal year in which all eligibility requirements have been met. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Measurable means the amount of the transaction can be determined and available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, “available” means expected to be received within sixty days of fiscal year-end.

The following material misstatements have been posted as adjustments to the financial statements:

- In the Title VI-B Fund, intergovernmental receivable and deferred revenue were understated by $6,906 and $33,186, respectively, intergovernmental revenue was overstated by $26,280.
- In the Miscellaneous Federal Grants Fund, intergovernmental receivable and deferred revenue were both understated by $186,974.
- In the Other Governmental Funds, intergovernmental receivable, deferred revenue, and intergovernmental revenue were understated by $392,859, $386,093, and $6,766, respectively.

To improve the accuracy and completeness of the Center’s basic financial statements and to provide for comparative financial statements from year to year, the Center should implement procedures to review the basic financial statements for accuracy and completeness, failure to do so could result in materially misstated financial statements.

Officials’ Response:

Center Officials’ declined to respond to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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
FEBRUARY 21, 2013

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