

**MADISON-CHAMPAIGN EDUCATIONAL
SERVICE CENTER**

CHAMPAIGN COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)
*FOR THE FISCAL YEAR ENDED
JUNE 30, 2005***



**Auditor of State
Betty Montgomery**

Governing Board
Madison-Champaign Educational Service Center
Urbana, Ohio

We have reviewed the *Independent Auditor's Report* of the Madison-Champaign Educational Service Center, Champaign County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 28, 2005

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
 CHAMPAIGN COUNTY, OHIO
 BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Governing Board
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center, Champaign County, Ohio (the "Center") as of and for the fiscal year ended June 30, 2005, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Madison-Champaign Educational Service Center, Champaign County, Ohio, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Madison-Champaign Educational Service Center
Page Two

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by 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 of the Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
October 20, 2005

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$72,919 which represents an 8.25% increase from 2004.
- General revenues accounted for \$1,674,245 in revenue or 19.21% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,034,863 or 80.72% of all revenues. The Center had an extraordinary item (reimbursement of an insurance claim) of \$6,036 for total revenues of \$8,715,144.
- The Center had \$8,642,225 in expenses related to governmental activities; \$7,034,863 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,674,245 were adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$7,391,514 in revenues and other financing sources and \$7,281,032 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$110,482 from \$835,786 to \$946,268.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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. In the case of the Center, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the 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 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-42 of this report.

The Center as a Whole

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

The table below provides a summary of the Center's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 2,185,789	\$ 2,096,534
Capital assets, net	<u>255,892</u>	<u>189,899</u>
Total assets	<u>2,441,681</u>	<u>2,286,433</u>
<u>Liabilities</u>		
Current liabilities	1,083,776	1,097,411
Long-term liabilities	<u>400,953</u>	<u>304,989</u>
Total liabilities	<u>1,484,729</u>	<u>1,402,400</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	187,183	172,306
Restricted	132,668	132,496
Unrestricted	<u>637,101</u>	<u>579,231</u>
Total net assets	<u>\$ 956,952</u>	<u>\$ 884,033</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's assets exceeded liabilities by \$956,952. Of this total, \$637,101 is unrestricted in use.

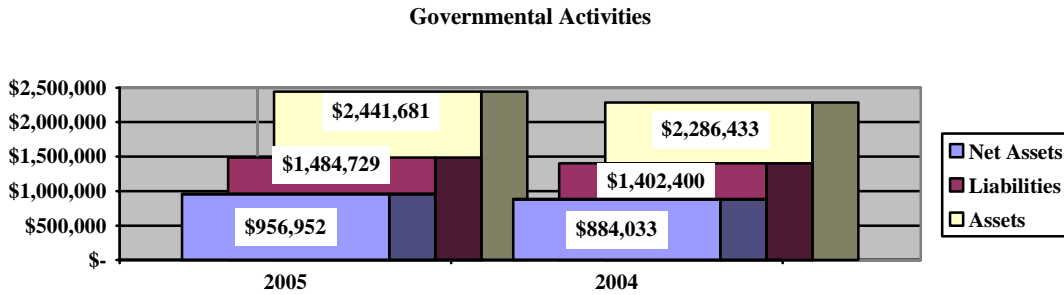
At year-end, capital assets represented 10.48% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$187,183. These capital assets are used to provide services to the students and are not available 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, \$132,668, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$637,101 may be used to meet the Center's ongoing obligations to the students and creditors.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2005 and 2004.



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	2005	2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 6,100,244	\$ 6,287,752
Operating grants and contributions	934,619	901,975
General revenues:		
Grants and entitlements	1,621,928	1,524,094
Investment earnings	30,060	12,731
Other	22,257	17,147
Total revenues	8,709,108	8,743,699

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 330,084	\$ 258,319
Special	2,349,482	3,035,951
Adult	18,757	21,237
Support services:		
Pupil	1,873,172	1,759,180
Instructional staff	2,201,841	1,793,465
Board of education	45,469	27,457
Administration	1,123,768	1,236,612
Fiscal	350,337	325,371
Business	9,319	9,073
Operations and maintenance	66,030	43,543
Pupil transportation	197,428	187,490
Central	1,183	2,579
Food service operations	70,630	51,351
Other non-instructional services	1,144	-
Interest and fiscal charges	<u>3,581</u>	<u>-</u>
Total expenses	<u>8,642,225</u>	<u>8,751,628</u>
Extraordinary item		
Reimbursement of insurance claim	<u>6,036</u>	<u>74,677</u>
Change in net assets	72,919	66,748
Net assets at beginning of year	<u>884,033</u>	<u>817,285</u>
Net assets at end of year	<u>\$ 956,952</u>	<u>\$ 884,033</u>

Governmental Activities

Net assets of the Center's governmental activities increased \$72,919. Total governmental expenses of \$8,642,225 were offset by program revenues of \$7,034,863, general revenues of \$1,674,245 and an extraordinary item of \$6,036. Program revenues supported 81.40% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract service and charges for services. These revenue sources represent 70.00% of total governmental revenue.

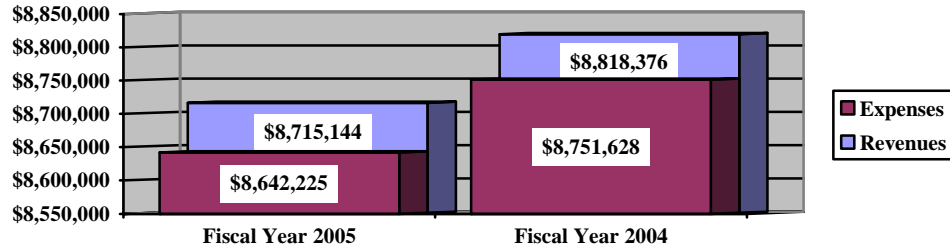
The largest expense of the Center is for instructional programs. Instruction expenses totaled \$2,698,323 or 31.22% of total governmental expenses for fiscal 2005.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

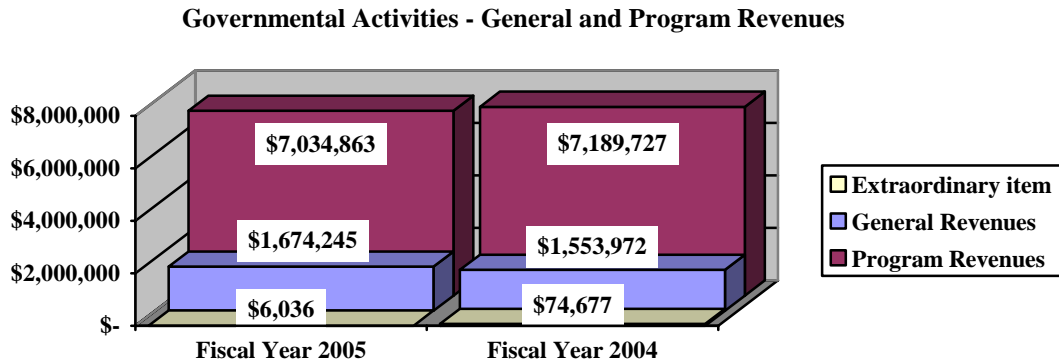
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 330,084	\$ 37,550	\$ 258,319	\$ 13,332
Special	2,349,482	356,311	3,035,951	704,272
Adult	18,757	(6,904)	21,237	(7,001)
Support services:				
Pupil	1,873,172	293,049	1,759,180	337,136
Instructional staff	2,201,841	302,958	1,793,465	(11,727)
Board of education	45,469	45,469	27,457	27,457
Administration	1,123,768	179,187	1,236,612	125,691
Fiscal	350,337	301,380	325,371	274,858
Business	9,319	9,319	9,073	9,073
Operations and maintenance	66,030	47,363	43,543	26,232
Pupil transportation	197,428	6,588	187,490	32,077
Central	1,183	1,183	2,579	2,579
Food service operations	70,630	30,458	51,351	27,922
Other non-instructional services	1,144	(130)	-	-
Interest and fiscal charges	3,581	3,581	-	-
Total expenses	<u>\$ 8,642,225</u>	<u>\$ 1,607,362</u>	<u>\$ 8,751,628</u>	<u>\$ 1,561,901</u>

For all governmental activities, program revenue support is 81.40%. The primary support of the Center is contracted fees for services provided to other Districts.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

The graph below presents the Center's governmental activities revenue for fiscal years 2005 and 2004.



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$1,099,983 which is higher than last year's total of \$980,141. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase	Percentage Change
General	\$ 946,268	\$ 835,786	\$ 110,482	13.22 %
Other Governmental	153,715	144,355	9,360	6.48 %
Total	\$ 1,099,983	\$ 980,141	\$ 119,842	12.23 %

General Fund

The Center's general fund balance increased \$110,482 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to revenues increasing faster than expenditures. Revenues exceed expenditures for fiscal year 2005 by \$109,056. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

	2005	Restated 2004	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Contract services	\$ 5,613,298	\$ 5,844,594	\$ (231,296)	(3.96) %
Earnings on investments	27,817	12,731	15,086	118.50 %
Intergovernmental	1,621,928	1,524,094	97,834	6.42 %
Other revenues	<u>68,150</u>	<u>52,031</u>	<u>16,119</u>	30.98 %
 Total	 <u>\$ 7,331,193</u>	 <u>\$ 7,433,450</u>	 <u>\$ (102,257)</u>	 (1.38) %
<u>Expenditures</u>				
Instruction	\$ 2,407,421	\$ 2,945,742	\$ (538,321)	(18.27) %
Support services	4,741,609	4,424,998	316,611	7.16 %
Capital outlay	60,321	17,593	42,728	242.87 %
Debt service	<u>12,786</u>	<u>-</u>	<u>12,786</u>	100.00 %
 Total	 <u>\$ 7,222,137</u>	 <u>\$ 7,388,333</u>	 <u>\$ (166,196)</u>	 (2.25) %

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the Center amended its general fund budget several times. For the general fund, original budgeted revenues were \$6,994,711 and final budgeted revenues were \$7,166,967. Actual revenues for fiscal 2005 were \$7,274,775. This represents a \$107,808 increase over final budgeted revenues. The increase is primarily due to the Center's conservative estimate of contract services revenue.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,108,347 were increased to \$7,283,217 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$7,273,243, which was \$9,974 less than the final budgeted appropriations.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the Center had \$255,892 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Furniture and equipment	\$ 249,427	\$ 182,634
Vehicles	6,465	7,265
Total	\$ 255,892	\$ 189,899

The overall increase in capital assets of \$65,993 is due to capital outlays of \$111,227 exceeding disposals of \$2,338 (net of accumulated depreciation) and depreciation expense of \$42,896 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the Center's capital assets.

Debt Administration

At June 30, 2005, the Center had \$68,709 in capital lease obligations outstanding. Of this total, \$13,865 is due within one year and \$54,844 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
Capital lease obligations	\$ 68,709	\$ 17,593
Total	\$ 68,709	\$ 17,593

See Notes 8 and 9 to the basic financial statements for additional information on the Center's capital leases and debt administration.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

Current Financial Related Activities

The Center is financially solvent. As the preceding information shows, the Center relies heavily on contracts with local and city school districts and joint vocational/career centers in Madison and Champaign Counties, as well as state foundation revenue and grants. The need for additional services from local and city school districts, along with the Center's cash balance, will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2006.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 1512 S. U.S. Highway 68, Urbana, Ohio 43078.

**BASIC
FINANCIAL STATEMENTS**

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,877,223
Receivables:	
Accounts	3,732
Intergovernmental	301,247
Accrued interest	2,030
Prepayments	1,557
Capital assets:	
Depreciable capital assets, net	255,892
Capital assets, net.	<u>255,892</u>
 Total assets.	 <u>2,441,681</u>
Liabilities:	
Accounts payable.	39,672
Accrued wages and benefits	849,894
Pension obligation payable.	124,421
Intergovernmental payable.	69,789
Long-term liabilities:	
Due within one year.	38,462
Due in more than one year.	362,491
 Total liabilities	 <u>1,484,729</u>
Net Assets:	
Invested in capital assets, net of related debt.	187,183
Restricted for:	
Capital projects	397
Locally funded programs.	91
State funded programs.	41,054
Federally funded programs	46,879
Public school support.	1,089
Other purposes	43,158
Unrestricted	<u>637,101</u>
 Total net assets.	 <u>\$ 956,952</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 330,084	\$ 141,599	\$ 150,935	\$ (37,550)
Special	2,349,482	1,967,764	25,407	(356,311)
Adult	18,757	-	25,661	6,904
Support services:				
Pupil	1,873,172	1,578,024	2,099	(293,049)
Instructional staff	2,201,841	1,407,155	491,728	(302,958)
Board of education	45,469	-	-	(45,469)
Administration	1,123,768	881,319	63,262	(179,187)
Fiscal	350,337	9,971	38,986	(301,380)
Business	9,319	-	-	(9,319)
Operations and maintenance	66,030	9,309	9,358	(47,363)
Pupil transportation	197,428	101,472	89,368	(6,588)
Central	1,183	-	-	(1,183)
Operation of non-instructional services:				
Food service operations	70,630	3,631	36,541	(30,458)
Other non-instructional services	1,144	-	1,274	130
Interest and fiscal charges	3,581	-	-	(3,581)
Total governmental activities	<u>\$ 8,642,225</u>	<u>\$ 6,100,244</u>	<u>\$ 934,619</u>	<u>(1,607,362)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,621,928
Investment earnings	30,060
Miscellaneous	22,257
Total general revenues	<u>1,674,245</u>

Extraordinary item:

Reimbursement of insurance claim	6,036
Total general revenues and extraordinary item	<u>1,680,281</u>

Change in net assets 72,919

Net assets at beginning of year 884,033

Net assets at end of year \$ 956,952

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,623,013	\$ 254,210	\$ 1,877,223
Receivables:			
Accounts	3,732	-	3,732
Accrued interest	2,030	-	2,030
Intergovernmental	252,910	48,337	301,247
Prepayments	1,557	-	1,557
Total assets	<u>\$ 1,883,242</u>	<u>\$ 302,547</u>	<u>\$ 2,185,789</u>
Liabilities:			
Accounts payable	\$ 12,383	\$ 27,289	\$ 39,672
Accrued wages and benefits	752,635	97,259	849,894
Pension obligation payable.	108,024	16,397	124,421
Intergovernmental payable.	61,902	7,887	69,789
Deferred revenue.	2,030	-	2,030
Total liabilities	<u>936,974</u>	<u>148,832</u>	<u>1,085,806</u>
Fund Balances:			
Reserved for encumbrances	6,662	26,234	32,896
Reserved for prepayments	1,557	-	1,557
Unreserved, undesignated, reported in:			
General fund	938,049	-	938,049
Special revenue funds.	-	127,084	127,084
Capital projects funds.	-	397	397
Total fund balances	<u>946,268</u>	<u>153,715</u>	<u>1,099,983</u>
Total liabilities and fund balances	<u>\$ 1,883,242</u>	<u>\$ 302,547</u>	<u>\$ 2,185,789</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,099,983
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		255,892
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accrued interest	\$ 2,030	
Total		2,030
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(332,244)	
Capital lease obligation	(68,709)	
Total		(400,953)
Net assets of governmental activities		\$ 956,952

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 45,893	\$ 294,990	\$ 340,883
Charges for services	-	3,631	3,631
Earnings on investments	27,817	213	28,030
Transportation fees	-	88,995	88,995
Classroom materials and fees	-	29,316	29,316
Other local revenues	22,257	3,825	26,082
Contract service revenue	5,613,298	20,296	5,633,594
Intergovernmental intermediate	-	13,661	13,661
Intergovernmental state	1,271,219	729,459	2,000,678
Intergovernmental federal	350,709	195,063	545,772
Total revenue	<u>7,331,193</u>	<u>1,379,449</u>	<u>8,710,642</u>
Expenditures:			
Current:			
Instruction:			
Regular	84,208	243,893	328,101
Special	2,323,213	32,237	2,355,450
Adult	-	18,627	18,627
Support services:			
Pupil	1,735,107	120,710	1,855,817
Instructional staff	1,635,616	539,977	2,175,593
Board of education	45,124	-	45,124
Administration	999,585	109,513	1,109,098
Fiscal	299,686	49,480	349,166
Business	9,319	-	9,319
Operations and maintenance	2,864	65,080	67,944
Pupil transportation	13,125	183,729	196,854
Central	1,183	-	1,183
Operation of non-instructional services:			
Food service operations	-	70,630	70,630
Other non-instructional services	-	1,144	1,144
Capital outlay	60,321	-	60,321
Debt service:			
Principal retirement	9,205	-	9,205
Interest and fiscal charges	3,581	-	3,581
Total expenditures	<u>7,222,137</u>	<u>1,435,020</u>	<u>8,657,157</u>
Excess of revenues over (under) expenditures	<u>109,056</u>	<u>(55,571)</u>	<u>53,485</u>
Other financing sources (uses):			
Proceeds from capital lease transaction	60,321	-	60,321
Transfers in	-	58,895	58,895
Transfers (out)	(58,895)	-	(58,895)
Total other financing sources (uses)	<u>1,426</u>	<u>58,895</u>	<u>60,321</u>
Extraordinary item:			
Reimbursement of insurance claim	-	6,036	6,036
Net change in fund balances	110,482	9,360	119,842
Fund balances			
at beginning of year (restated)	835,786	144,355	980,141
Fund balances at end of year	<u>\$ 946,268</u>	<u>\$ 153,715</u>	<u>\$ 1,099,983</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

Net change in fund balances - total governmental funds \$ 119,842

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

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

Capital asset additions	111,227	
Current year depreciation	(42,896)	
Total		68,331

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (2,338)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,534)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 9,205

Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (60,321)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (60,266)

Change in net assets of governmental activities \$ 72,919

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 42,001	\$ 42,001	\$ 43,400	\$ 1,399
Earnings on investments	28,051	27,000	29,175	2,175
Other local revenues	22,306	22,767	23,199	432
Contract service revenue	5,310,313	5,449,202	5,523,217	74,015
Intergovernmental state	1,222,280	1,265,997	1,271,219	5,222
Intergovernmental federal	369,760	360,000	384,565	24,565
Total revenue	<u>6,994,711</u>	<u>7,166,967</u>	<u>7,274,775</u>	<u>107,808</u>
Expenditures:				
Current:				
Instruction:				
Regular	43,935	44,954	44,954	-
Special	2,405,137	2,463,535	2,460,930	2,605
Support services:				
Pupil	1,689,712	1,731,694	1,728,909	2,785
Instructional staff	1,553,729	1,591,264	1,589,772	1,492
Board of education	42,421	43,411	43,405	6
Administration	998,417	1,023,510	1,021,578	1,932
Fiscal	290,218	297,215	296,950	265
Business	9,827	10,055	10,055	-
Operations and maintenance	2,848	2,914	2,914	-
Pupil transportation	13,255	13,563	13,563	-
Central	1,288	1,318	1,318	-
Extracurricular activities	-	245	-	245
Total expenditures	<u>7,050,787</u>	<u>7,223,678</u>	<u>7,214,348</u>	<u>9,330</u>
Excess of revenues over (under) expenditures	<u>(56,076)</u>	<u>(56,711)</u>	<u>60,427</u>	<u>117,138</u>
Other financing uses:				
Transfers out	(57,560)	(59,539)	(58,895)	644
Total other financing uses	<u>(57,560)</u>	<u>(59,539)</u>	<u>(58,895)</u>	<u>644</u>
Net change in fund balance	(113,636)	(116,250)	1,532	117,782
Fund balance at beginning of year	1,590,471	1,590,471	1,590,471	-
Prior year encumbrances appropriated	14,293	14,293	14,293	-
Fund balance at end of year	<u>\$ 1,491,128</u>	<u>\$ 1,488,514</u>	<u>\$ 1,606,296</u>	<u>\$ 117,782</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 42,300
Total assets.	<u>\$ 42,300</u>
Liabilities:	
Due to other governments.	\$ 42,300
Total liabilities	<u>\$ 42,300</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative, and other services to the Graham, Jefferson, Jonathan Alder, Madison Plains, West Liberty-Salem, Triad Local, London and Urbana City school districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 120 non-certified employees and 99 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, contract services, and student related programs of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship to the Center:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO 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 districts. This organization is governed by a board of directors consisting of 14 members; the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney Ohio 45365.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the MEC. The governing board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council. Elmo Kallner, who serves as Director, 6100 Channingway Boulevard, Suite 604, Columbus, Ohio 43232.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the education needs of the area through television programming for the advancement of educational programs. The Board of Trustees is elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

West Central Ohio Special Educational Regional Resource Center

The West Central Ohio Special Educational Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326-2385.

Central Ohio Special Educational Regional Resource Center

The Central Ohio Special Educational Regional Resource Center (COSERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The COSERRC is governed by a sixty member board consisting of the superintendent from the sixty participating members. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Melissa Shultz, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43206.

Ohio ESC MAC Consortium

The Center is a participant in the Ohio ESC MAC Consortium (OEMC). OEMC was formed for the purpose of accessing Medicaid Reimbursements for Special Education. OEMC is a Consortium of seven educational service centers. The Consortium has entered into an agreement with Meccatech, Inc. to provide assistance in the form of software systems, consulting, advocacy, data collection, and data processing.

PUBLIC ENTITY PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating schools ESC's pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235. The intent of the Program is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Program. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Program.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Champaign, Delaware, Marion, Union Schools Insurance Consortium (CDMU)

CDMU sponsors self-insured medical plans for nine (9) school districts, educational service centers and Board of Education primarily within Champaign, Delaware, Marion, and Union Counties. These plans are for active employees and their covered dependents. Amongst the nine (9) districts and service centers, there were three (3) plans/plan options offered to active employees and their dependents during the period under review. CDMU has contracted with Core Source for all administrative, claims processing, claims payment, and customer service at Core Source's Dublin, Ohio facility.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the Center are used to account for all financial resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no proprietary funds.

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. The Center has no trust funds. The Center's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for monies due to other governments.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

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

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange 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 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, tuition, grants, and contract services.

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.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Basis

The Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

The Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of expenditures, the Center has elected to present budgetary statement comparisons at the fund and function level of expenditures.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

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

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), Federal agency securities, and a US Government Money Market account. Investments are reported at fair market value.

The Center has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$27,817, which includes \$3,570 assigned from other funds.

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

An analysis of the Center's investment account at year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. 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. The Center does not possess infrastructure.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets 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	Governmental Activities Estimated Lives
Furniture and equipment	7 - 20 years
Vehicles	10 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets. The Center had no interfund balances at June 30, 2005.

I. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and instructional expenditures on the financial statements. For fiscal year 2005, these activities included the Preschool Handicapped special revenue fund (a nonmajor governmental fund).

J. Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. The Center incurred a transaction that would be classified as an extraordinary item. In the current year, the Center received \$6,036 in proceeds of reimbursement of insurance claims related to fire damage that occurred in fiscal year 2005.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

A. Restatement of Fund Balance

For fiscal year 2005, the Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the Center, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the Center as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund Balances, June 30, 2004	\$ 858,492	\$ 149,891	\$ 1,008,383
GASB Technical Bulletin No. 2004-2	(22,706)	(5,536)	(28,242)
Restated Fund Balance, June 30, 2004	\$ 835,786	\$ 144,355	\$ 980,141

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

B. Deficit Fund Balance

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Fund</u>	<u>Deficit</u>
Management Information Systems	\$ 46

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies to 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;

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

At year-end, the Center had \$200 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all the Center deposits was \$669,050. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$776,501 of the Center's bank balance of \$977,231 was exposed to custodial risk as discussed below, while \$200,730 was covered by Federal Deposit Insurance Corporation.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
US Governmental Money Market	\$ 5	\$ 5	\$ -
STAR Ohio	804,909	804,909	-
FHLB	292,885	149,109	143,776
FNMA	152,474	152,474	-
	<u>\$ 1,250,273</u>	<u>\$ 1,106,497</u>	<u>\$ 143,776</u>

The weighted average maturity of investments is .16 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Center's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
US Government Money Market	\$ 5	0.01
STAR Ohio	804,909	64.37
FHLB	292,885	23.42
FNMA	152,474	12.20
	<u>\$ 1,250,273</u>	<u>100.00</u>

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 669,050
Investments	1,250,273
Cash on hand	<u>200</u>
Total	<u>\$ 1,919,523</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,877,223
Agency funds	<u>42,300</u>
Total	<u>\$ 1,919,523</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 58,895

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Accounts	\$ 3,732
Interest	2,030
Intergovernmental	<u>301,247</u>
Total	<u>\$ 307,009</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/05</u>
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 382,761	\$ 111,227	\$ (9,314)	\$ 484,674
Vehicles	<u>25,997</u>	<u>-</u>	<u>-</u>	<u>25,997</u>
Total capital assets, being depreciated	<u>408,758</u>	<u>111,227</u>	<u>(9,314)</u>	<u>510,671</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(200,127)	(42,096)	6,976	(235,247)
Vehicles	<u>(18,732)</u>	<u>(800)</u>	<u>-</u>	<u>(19,532)</u>
Total accumulated depreciation	<u>(218,859)</u>	<u>(42,896)</u>	<u>6,976</u>	<u>(254,779)</u>
Governmental activities capital assets, net	<u>\$ 189,899</u>	<u>\$ 68,331</u>	<u>\$ (2,338)</u>	<u>\$ 255,892</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,883
Special	8,737
Adult	130
<u>Support Services:</u>	
Pupil	2,951
Instructional staff	4,968
Board of Education	345
Administration	19,163
Fiscal	1,953
Operations and Maintenance	209
Pupil Transportation	<u>1,557</u>
Total depreciation expense	<u>\$ 42,896</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current fiscal year and in prior years, the Center entered into capital lease agreements for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reported as function expenditures on the budgetary statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

General capital assets acquired by lease have been capitalized in the amount of \$77,914, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets. Principal payments in fiscal year 2005 totaled \$9,205 paid by the general fund.

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

<u>Year Ending June 30</u>	<u>Equipment</u>
2006	\$ 18,861
2007	18,861
2008	18,861
2009	18,861
2010	<u>6,075</u>
Total future minimum lease payments	81,519
Less: amount representing interest	<u>(12,810)</u>
Present value of future minimum lease payment	<u>\$ 68,709</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 287,396	\$ 83,669	\$ (38,821)	\$ 332,244	\$ 24,597
Capital lease	<u>17,593</u>	<u>60,321</u>	<u>(9,205)</u>	<u>68,709</u>	<u>13,865</u>
Total long-term obligations, governmental activities	<u>\$ 304,989</u>	<u>\$ 143,990</u>	<u>\$ (48,026)</u>	<u>\$ 400,953</u>	<u>\$ 38,462</u>

Compensated absences will ultimately be paid from the fund from which the employee is paid. See Note 8 for detail on the capital lease obligation.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation time does not carry beyond the contract year in which it is earned. Accumulated unused vacation time is paid to twelve month employees upon termination of employment. Teachers do not earn vacation time.

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NOTE 10 - COMPENSATED ABSENCES - (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, employees with five to ten years of service are paid for one-fifth of accrued, but unused sick leave credit to a maximum of forty days, and employees with over ten years of service are paid for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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 2005, the Center contracted for the following insurance coverages:

Coverages provided by Harcum-Hyre Insurance are as follows:

Building and contents - replacement cost	\$1,000,000
Automobile liability	1,000,000
General liability	
Per occurrence	1,000,000
Aggregate	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

B. Health Care Benefits

The Center provides health insurance and prescription drug benefits through CoreSource. Vision insurance is provided through Vision Service Plan, dental insurance through Anthem Blue Cross Blue Shield, and life insurance through CoreSource, Anthem Blue Cross Blue Shield, and Community National Assurance. Insurance premiums vary with each employee depending on marital and family status.

C. Worker's Compensation

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - RISK MANAGEMENT - (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current ESC rate is 14% of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$172,406, \$127,008 and \$101,611, respectively; 100% has been contributed for fiscal years 2005, 2004, and 2003.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current ESC rate is 14% of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The Center's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$525,255, \$567,890, and \$513,244, respectively; 100% has been contributed for fiscal years 2005, 2004, and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$11,338 made by the Center and \$16,390 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Governing Board have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the Center, this amount equaled \$40,402 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268,739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$84,188 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 1,532
Net adjustment for revenue accruals	56,418
Net adjustment for expenditure accruals	(25,864)
Net adjustment for other sources/uses	60,321
Adjustment for encumbrances	<u>18,075</u>
GAAP basis	<u>\$ 110,482</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Center is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

NOTE 16 - STATE FUNDING

The Center is funded by the State Board of Education from state funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the state's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from state funds to the Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

NOTE 17 - SUBSEQUENT EVENT

Effective November 7, 2005, Mr. Matthew Ketcham was hired as the new Treasurer of the Center.

SUPPLEMENTAL DATA

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Nutrition Cluster:				
(E), (C) School Breakfast Program	10.553	137364-05-PU-2004	\$ 1,818	\$ 1,818
(E), (C) School Breakfast Program	10.553	137364-05-PU-2005	11,149	11,149
(E), (C) School Breakfast Program	10.553	137364-05-RE-2004	2,233	2,233
(E), (C) National School Lunch Program	10.555	137364-LL-P4-2004	5,584	5,584
(E), (C) National School Lunch Program	10.555	137364-LL-P4-2005	18,748	18,748
Total U.S. Department of Agriculture and Nutrition Cluster			<u>39,532</u>	<u>39,532</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
(D) Adult Education - State Grant Programs	84.002	N/A	12,000	12,000
Special Education Cluster:				
(B) Special Education - Grants to States	84.027	137364-6B-SA-2004	9,207	10,190
(B) Special Education - Grants to States	84.027	137364-6B-SA-2005	50,000	43,621
Total Special Education Grants to States			<u>59,207</u>	<u>53,811</u>
(B) Special Education -Preschool Grants	84.173	137364-PG-S1-2004	7,478	9,461
(B) Special Education - Preschool Grants	84.173	137364-PG-S1-2005	71,016	67,846
Total Special Education Preschool Grants			<u>78,494</u>	<u>77,307</u>
Total Special Education Cluster			<u>137,701</u>	<u>131,118</u>
Safe and Drug-Free Schools and Communities - National Programs	84.184	137364-T4-S1-2004	-	3,830
Total U. S. Department of Education			<u>149,701</u>	<u>146,948</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
Student Children Health Insurance Program	93.767	N/A	27,105	27,105
Medical Assistance Program	93.778	N/A	357,460	357,460
Total U. S. Department of Health and Human Services			<u>384,565</u>	<u>384,565</u>
Total Federal Financial Assistance			<u>\$ 573,798</u>	<u>\$ 571,045</u>

- (A) This schedule was prepared on the cash basis of accounting.
 (B) Included as part of "Special Education Cluster" in determining major programs.
 (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (D) These funds were passed through the Ohio Highpoint Joint Vocational School.
 (E) Included as part of "Nutrition Grant Cluster" in determining major programs.



Julian & Grube, Inc.
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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Governing Board
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Madison-Champaign Educational Service Center (the "Center"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 20, 2005. As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Center in a separate letter dated October 20, 2005.

Governing Board
Madison-Champaign Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to the management of the Center in a separate letter dated October 20, 2005.

This report is intended solely for the information and use of management and the Board of the Center, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
October 20, 2005



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Federal Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Governing Board
Madison-Champaign Educational Service Center
1512 S. US Hwy 68, Suite J100
Urbana, Ohio 43078

Compliance

We have audited the compliance of the Madison-Champaign Educational Service Center (the “Center”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. The Center’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center’s management. Our responsibility is to express an opinion on the Center’s compliance based on our audit.

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

Governing Board
Madison-Champaign Educational Service Center

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the management, the Board of the Center, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
October 20, 2005

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Medical Assistance Program - CFDA #93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN 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
DECEMBER 30, 2005**