



Mary Taylor, CPA
Auditor of State

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, (the Center), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures (the Schedule) is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

January 22, 2007

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$2,354,970, which represents a 14.6 percent increase from 2005.
- General revenues accounted for \$3,793,768 in revenue or 12.4 percent of all revenues. Program specific revenues in the form of charges for services, and operating and capital grants, interest and contributions accounted for \$26,879,306 or 87.6 percent of total revenues of \$30,673,074.
- The Educational Service Center had \$28,318,104 in expenses; \$26,879,306 of these expenses were offset by program specific charges for services and operating and capital grants and contributions and interest. General revenues (primarily grants and entitlements) of \$3,793,768 provided for the remainder of these costs.
- The Educational Service Center's major funds are the General Fund, Regional Transportation Fund, and the Miscellaneous State Grants Fund. The General Fund had \$24,284,033 in revenues and \$20,564,911 in expenditures. The General Fund's balance increased \$3,017,121. The Regional Transportation Fund has \$2,015,147 in revenues and \$1,682,996 in expenditures. The Regional Transportation Fund's balance increased \$732,951. The Miscellaneous State Grants Fund had \$2,212,351 in revenues and \$2,313,593 in expenditures. The Miscellaneous State Grants Fund's balance decreased \$23,303.

Using the Basic Financial Statements

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

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

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund, Regional Transportation Fund, and Miscellaneous State Grants Fund.

Governmental Funds

All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Educational Service Center as a Whole

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005.

Table 1
Net Assets

	2006	Restated 2005	Change
Assets:			
Current and Other Assets	\$18,809,013	\$17,463,282	\$1,345,731
Capital Assets	3,965,756	4,295,772	(330,016)
Total Assets	22,774,769	21,759,054	1,015,715
Liabilities:			
Long-Term Liabilities	1,153,141	1,381,634	(228,493)
Other Liabilities	3,127,036	4,237,798	(1,110,762)
Total Liabilities	4,280,177	5,619,432	(1,339,255)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,281,484	3,399,785	(118,301)
Restricted	4,124,996	3,577,674	547,322
Unrestricted	11,088,112	9,162,163	1,925,949
Total Net Assets	\$18,494,592	\$16,139,622	\$2,354,970

Several factors contributed to a net assets increase of \$2,354,970. First and foremost, a decrease in total liabilities of \$1,339,255 contributed as accounts payable and intergovernmental payable decreased by \$349,886 and \$239,668, respectively. Unrestricted net assets increased accordingly. Intergovernmental payable was higher in 2005 due to State Institute for Reading Instruction grant paid for stipends for teachers. Also, cash and cash equivalents increased by \$3,330,271 while intergovernmental receivable decreased by \$2,064,504. The General Fund saw a large increase in cash due to the conscious effort of the Educational Service Center to keep expenditures to a minimum. Intergovernmental receivable decreased mainly due to Dayton Public Schools not contracting with the Educational Service Center to provide special needs programs.

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

Table 2
Changes in Net Assets

	2006	Restated 2005	Change
Revenues:			
Program Revenues:			
Charges for Services	\$21,490,455	\$25,025,692	(\$3,535,237)
Operating Grants and Contributions	5,386,241	7,586,510	(2,200,269)
Capital Grants, Contributions, and Interest	2,610	0	2,610
Total Program Revenues	26,879,306	32,612,202	(5,732,896)
General Revenues:			
Grants and Entitlements	2,156,180	2,069,050	87,130
Investment Earnings	720,301	226,454	493,847
Gifts and Donations	1,007	0	1,007
Miscellaneous	916,280	446,149	470,131
Total General Revenues	3,793,768	2,741,653	1,052,115
Total Revenues	30,673,074	35,353,855	(4,680,781)
Program Expenses:			
Instruction:			
Regular	0	1,098	(1,098)
Special	6,256,977	10,497,990	(4,241,013)
Support Services:			
Pupils	7,194,364	7,590,343	(395,979)
Instructional Staff	8,552,185	9,624,186	(1,072,001)
Board of Education	72,093	123,102	(51,009)
Administration	1,654,522	2,077,771	(423,249)
Fiscal	586,618	739,013	(152,395)
Business	35,179	196,857	(161,678)
Operation and Maintenance of Plant	557,268	434,346	122,922
Pupil Transportation	2,286,987	3,317,897	(1,030,910)
Central	862,162	841,585	20,577
Operation of Non-instructional Services	140,210	65,064	75,146
Interest and Fiscal Charges	29,828	39,553	(9,725)
Unallocated depreciation	89,711	89,711	0
Total Expenses	28,318,104	35,638,516	(7,320,412)
Increase in Net Assets	2,354,970	(284,661)	2,639,631
Net Assets Beginning of Year	16,139,622	16,424,283	(284,661)
Net Assets End of Year	\$18,494,592	\$16,139,622	\$2,354,970

Governmental Activities

Instruction comprises 22.1 percent of expenses. Support services expenses make up 77.0 percent of the expenses.

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Charges for services of \$21,490,455 make up 70.0 percent of total revenues of \$30,673,074.

Instruction and support services costs decreased primarily do to the non-renewal of a large amount of certified employees for special needs programs at the end of 2005 for the 2006 fiscal year. Dayton Public Schools decided to provide these programs in-house instead of contracting with the Educational Service Center. Because of this decrease, instructional staff positions were also cut by the Educational Service Center. The primary reason that the charges for services decreased in 2006 is due to Dayton Public Schools no longer paying for the services to the Educational Service Center.

Operating Grants and Contributions decreased primarily do to the Help Me Grow program through the County no longer being contracted through Educational Service Center.

The statement of activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, identifies the cost of these services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$6,256,977	\$1,013,254	\$10,499,088	(\$1,098)
Support Services	21,801,378	(2,278,995)	24,945,100	(3,410,774)
Operation of Non- Instructional Services	140,210	(53,518)	65,064	514,822
Interest and Fiscal Charges	29,828	(29,828)	39,553	(39,553)
Unallocated Depreciation	89,711	(89,711)	89,711	(89,711)
Total Expenses	\$28,318,104	(\$1,438,798)	\$35,638,516	(\$3,026,314)

The Educational Service Center's Funds

Information about the Educational Service Center's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$31,705,712 and expenditures of \$28,261,442. The net change in fund balance for the year in the General Fund was \$3,017,121, \$732,951 in the Regional Transportation Fund, and (\$23,303) in the Miscellaneous State Grants Fund.

The net change in fund balance was caused in the General Fund by a decrease in special instruction expenditures due to the non-renewal of a large amount by certified employees for special needs programs at the end of 2005 for the 2006 fiscal year.

The Regional Transportation Fund revenues exceeded expenditures, increasing the year-end fund balance by \$732,951 to \$2,653,276 mainly due to non-renewal of transportation provided to Dayton Public Schools for special needs programs.

The Miscellaneous State Grants Fund expenditures exceeded revenues, decreasing the year-end fund balance by \$23,303 to \$232,331 mainly due to the Help Me Grow program for grant year 2005 finishing in fiscal year 2006 without renewal for grant year 2006.

Montgomery County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

Under Ohio law Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2006 a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopted appropriations.

Capital Assets

At the end of the fiscal year 2006 the Educational Service Center had \$3,965,756 invested in land, building and improvements, furniture and equipment, and vehicles.

Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

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

	<u>2006</u>	<u>2005</u>
Land	\$182,098	\$182,098
Building and Improvements	3,025,982	3,089,482
Furniture and Equipment	422,473	521,882
Vehicles	335,203	502,310
Totals	<u>\$3,965,756</u>	<u>\$4,295,772</u>

Overall capital assets decreased \$330,016 from fiscal year 2005 to fiscal year 2006 mainly due to depreciation expense. For more information on capital assets, refer to Note 7 of the basic financial statements.

Debt Administration

At June 30, 2006, the Educational Service Center had \$684,272 in total outstanding debt of capital leases. Refer to Notes 12 and 13 of the basic financial statements for additional information.

Current Financial Issues and Concerns

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

Contacting the Educational Service Center's Financial Management

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

Montgomery County Educational Service Center

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$16,150,001
Accrued Interest Receivable	181,370
Intergovernmental Receivable	2,462,499
Materials and Supplies Inventory	3,200
Prepaid Items	11,943
Nondepreciable Capital Assets	182,098
Depreciable Capital Assets, Net	3,783,658
Total Assets	<u>22,774,769</u>
Liabilities:	
Accounts Payable	201,189
Accrued Wages and Benefits Payable	2,244,784
Matured Compensated Absences Payable	54,603
Accrued Interest Payable	139
Intergovernmental Payable	626,321
Long-Term Liabilities:	
Due Within One Year	436,032
Due in More Than One Year	717,109
Total Liabilities	<u>4,280,177</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,281,484
Restricted for:	
Capital Outlay	75,871
Other Purposes	189,174
Regional Transportation	2,651,043
Title VI-B	479,360
Miscellaneous State Grant	729,548
Unrestricted	11,088,112
Total Net Assets	<u><u>\$18,494,592</u></u>

See Accompanying Notes to the Basic Financial Statements

See Accountants' Compilation Report

Montgomery County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants, Interest, and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Special	\$6,256,977	\$7,077,670	\$192,561	\$0	\$1,013,254
Support Services:					
Pupils	7,194,364	5,519,560	821,482	0	(853,322)
Instructional Staff	8,552,185	4,513,374	2,881,220	2,610	(1,154,981)
Board of Education	72,093	60,428	0	0	(11,665)
Administration	1,654,522	867,146	505,926	0	(281,450)
Fiscal	586,618	321,014	213,451	0	(52,153)
Business	35,179	29,487	0	0	(5,692)
Operation and Maintenance of Plant	557,268	371,571	79,570	0	(106,127)
Pupil Transportation	2,286,987	1,777,120	617,534	0	107,667
Central	862,162	940,890	0	0	78,728
Operation of Non-Instructional Services	140,210	12,195	74,497	0	(53,518)
Interest and Fiscal Charges	29,828	0	0	0	(29,828)
Unallocated Depreciation	89,711	0	0	0	(89,711)
Total Governmental Activities	\$28,318,104	\$21,490,455	\$5,386,241	\$2,610	(1,438,798)

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	2,156,180
Investment Earnings	720,301
Gifts and Donations	1,007
Miscellaneous	916,280
Total General Revenues	3,793,768

Change in Net Assets 2,354,970

Net Assets Beginning of Year (Restated - Note 3) 16,139,622

Net Assets End of Year 18,494,592

See Accompanying Notes to the Basic Financial Statements

See Accountants' Compilation Report

Montgomery County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2006

	General	Regional Transportation	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$9,477,699	\$2,657,443	\$1,160,577	\$2,854,282	\$16,150,001
Accrued Interest Receivable	181,370	0	0	0	181,370
Intergovernmental Receivable	1,615,898	11,812	513,396	321,393	2,462,499
Interfund Receivable	1,438,745	0	0	0	1,438,745
Materials and Supplies Inventory	3,200	0	0	0	3,200
Prepaid Items	11,109	0	0	834	11,943
Total Assets	\$12,728,021	\$2,669,255	\$1,673,973	\$3,176,509	\$20,247,758
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$55,699	\$24	\$93,766	\$51,700	\$201,189
Accrued Wages and Benefits Payable	2,171,928	14,679	7,208	50,969	2,244,784
Matured Compensated Absences Payable	54,603	0	0	0	54,603
Interfund Payable	0	0	713,531	725,214	1,438,745
Intergovernmental Payable	477,738	1,276	113,741	33,566	626,321
Deferred Revenue	380,255	0	513,396	136,416	1,030,067
Total Liabilities	3,140,223	15,979	1,441,642	997,865	5,595,709
Fund Balances:					
Reserved for Encumbrances	238,044	8,786	638,968	231,671	1,117,469
Unreserved, Undesignated (Deficit), Reported in:					
General Fund	9,349,754	0			9,349,754
Special Revenue Funds	0	2,644,490	(406,637)	1,871,102	4,108,955
Capital Projects Fund	0	0	0	75,871	75,871
Total Fund Balances	9,587,798	2,653,276	232,331	2,178,644	14,652,049
Total Liabilities and Fund Balances	\$12,728,021	\$2,669,255	\$1,673,973	\$3,176,509	\$20,247,758

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Montgomery County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006

Total Governmental Fund Balances \$14,652,049

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	182,098	
Building and Improvements	3,222,902	
Furniture and Equipment	1,170,096	
Vehicles	1,977,374	
Accumulated Depreciation	<u>(2,586,714)</u>	
		3,965,756

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

Tuition and Fees	248,186	
Intergovernmental Grants	633,080	
Charges for Services	<u>148,801</u>	
		1,030,067

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

Accrued Interest on Capital Lease	(139)	
Compensated Absences Payable	(468,869)	
Capital Lease Payable	<u>(684,272)</u>	
		<u>(1,153,280)</u>

Net Assets of Governmental Activities \$18,494,592

See Accompanying Notes to the Basic Financial Statements
 See Accountants' Compilation Report

Montgomery County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Regional Transportation	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental	\$2,347,363	\$617,534	\$2,098,162	\$2,206,421	\$7,269,480
Interest	720,301	0	0	2,610	722,911
Tuition and Fees	2,437,666	1,369,052	0	0	3,806,718
Gifts and Donations	0	0	0	1,007	1,007
Charges for Services	17,993,838	28,561	101,263	865,654	18,989,316
Miscellaneous	784,865	0	12,926	118,489	916,280
Total Revenues	24,284,033	2,015,147	2,212,351	3,194,181	31,705,712
Expenditures:					
Current:					
Instruction:					
Special	5,791,542	0	0	501,399	6,292,941
Support Services:					
Pupils	6,307,611	0	473,478	410,165	7,191,254
Instructional Staff	4,932,342	0	1,675,373	1,830,102	8,437,817
Board of Education	72,093	0	0	0	72,093
Administration	1,087,657	0	0	595,321	1,682,978
Fiscal	353,970	0	158,635	68,895	581,500
Business	52,057	0	0	0	52,057
Operation and Maintenance of Plant	440,528	12,735	6,107	94,858	554,228
Pupil Transportation	452,766	1,670,261	0	0	2,123,027
Central	798,869	0	0	31,937	830,806
Operation of Non-Instructional Services	17,945	0	0	122,265	140,210
Capital Outlay	16,127	0	0	0	16,127
Debt Service:					
Principal Retirement	211,715	0	0	0	211,715
Interest and Fiscal Charges	29,689	0	0	0	29,689
Total Expenditures	20,564,911	1,682,996	2,313,593	3,654,942	28,216,442
Excess of Revenues Over (Under) Expenditures	3,719,122	332,151	(101,242)	(460,761)	3,489,270
Other Financing Sources (Uses):					
Transfers In	226,965	400,800	77,939	552,485	1,258,189
Transfers Out	(928,966)	0	0	(329,223)	(1,258,189)
Total Other Financing Sources (Uses)	(702,001)	400,800	77,939	223,262	0
Net Change in Fund Balances	3,017,121	732,951	(23,303)	(237,499)	3,489,270
Fund Balances at Beginning of Year (Restated - Note 3)	6,570,677	1,920,325	255,634	2,416,143	11,162,779
Fund Balances at End of Year	<u>\$9,587,798</u>	<u>\$2,653,276</u>	<u>\$232,331</u>	<u>\$2,178,644</u>	<u>\$14,652,049</u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Montgomery County Educational Service Center
 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, 2006

Net Change in Fund Balances - Total Governmental Funds \$3,489,270

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital Asset Additions	10,263	
Depreciation Expense	(339,534)	
Excess of depreciation expense over capital outlay		(329,271)

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

Loss on Disposal of Capital Assets		(745)
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Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:

Capital Lease Payable		211,715
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Some revenues that will not be collected for several months after the Educational Service Center's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Deferred Revenues changed by these amounts:

Tuition and Fees	(620,123)	
Intergovernmental Revenue	272,941	
Charges for Services	(685,456)	
		(1,032,638)

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

Increase in Accrued Interest Payable	(139)	
Decrease in Compensated Absences Payable	16,778	
		16,639

Change in Net Assets of Governmental Activities		\$2,354,970
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See Accompanying Notes to the Basic Financial Statements
 See Accountants' Compilaton Report

Montgomery County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Investment Trust	
	MDECA	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$2,553,424	\$45,199
Intergovernmental Receivable	60,725	0
Total Assets	<u>2,614,149</u>	<u>\$45,199</u>
Liabilities:		
Undistributed Monies	0	\$45,199
Net Assets:		
Held in Trust for Pool Participants	<u>\$2,614,149</u>	

See Accompanying Notes to the Basic Financial Statements

See Accountants' Compilation Report

Montgomery County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

	Investment Trust
	MDECA
Additions:	
Interest	\$74,787
Miscellaneous	2,854,100
Total Additions	2,928,887
 Deductions:	
Payments in Accordance with Trust Agreements	2,706,448
Change in Net Assets	222,439
Net Assets at Beginning of Year	2,391,710
Net Assets at End of Year	\$2,614,149

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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

The Montgomery County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center has 125 classified staff employees, 175 certified teaching personnel, and 6 administrative employees that provide services to the local, exempted village, and city school districts.

Reporting Entity:

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

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

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association (MDECA)

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'

Compensation Group Rating Plan

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Ohio School Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center has no business-type activities.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements:

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

Governmental Funds:

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Regional Transportation Fund – The Regional Transportation Fund is used to account for receipts and expenditures necessary for the Special Education Regional Resource Center to provide special education student school transportation.

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements:

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: excess cost, tuition and student fees, grants, and accrued interest.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, the Educational Service Center's investments were limited to non-negotiable certificates of deposit, which are reported at cost.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$720,301 which includes \$311,972 assigned from other Educational Service Center funds.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Interfund Balances

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

H. Inventory

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

I. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five thousand dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-term Obligations

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

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

K. Compensated Absences

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

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

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Net Assets

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

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

The government-wide statement of net assets reports \$4,124,996 of restricted net assets, of which none is restricted by enabling legislation.

M. Fund Balance Reserves

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

N. Interfund Transactions

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 to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Budgetary Process

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles

For fiscal year 2006, the Educational Service Center has implemented *GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*, *GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”*, and *GASB Statement No. 47, “Accounting for Termination Benefits”*..

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Educational Service Center’s financial statements for fiscal year 2006.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Educational Service Center’s financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial standards for termination benefits. This statement clarifies and established reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Educational Service Center’s financial statements for fiscal year 2006.

B. Restatement

During fiscal year 2006, it was determined that the Miami Valley Special Education Regional Resource Center (SERRC) and the Regional Transportation was part of the reporting entity of the Educational Service Center. The activity of the SERRC and Regional Transportation was reclassified to a special revenue fund from an agency fund. The change in fund structure had the following effect on fund balances and net assets:

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES (continued)

	General	Regional Transportation	Miscellaneous State Grants Funds	Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2005	\$6,570,677	\$0	\$255,634	\$1,602,040	\$8,428,351
Fund Reclassifications	0	1,920,325	0	814,103	2,734,428
Adjusted Fund Balance at June 30, 2005	<u>\$6,570,677</u>	<u>\$1,920,325</u>	<u>\$255,634</u>	<u>\$2,416,143</u>	<u>11,162,779</u>
	Net Assets				
Net Assets at June 30, 2005	<u>\$12,763,172</u>				
Fund Reclassifications	2,688,112				
Capital Assets, net	688,338				
Adjusted Net Assets at June 30, 2005	<u>16,139,622</u>				

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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

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

NOTE 5 – STATE AND LOCAL SCHOOL DISTRICT FUNDING

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 – STATE AND LOCAL SCHOOL DISTRICT FUNDING (continued)

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

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

NOTE 6- RECEIVABLES

Receivables at June 30, 2006, consisted of interfund, accrued interest, and intergovernmental. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
State Institute for Reading Instruction	\$513,396
SIG State Improvement	9,290
Tuition and Student Fees	812,096
Title VI B	292,671
Customer Sales and Services	835,046
Total Intergovernmental Receivables	<u><u>\$2,462,499</u></u>

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Adjusted Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$182,098	\$0	\$0	\$182,098
Capital Assets, Being Depreciated:				
Building and Improvements	3,222,902	0	0	3,222,902
Furniture and Equipment	1,167,281	10,263	(7,448)	1,170,096
Vehicles	1,977,374	0	0	1,977,374
Total Capital Assets, Being Depreciated	<u>6,367,557</u>	<u>10,263</u>	<u>(7,448)</u>	<u>6,370,372</u>
Less Accumulated Depreciation:				
Building and Improvements	(133,420)	(63,500)	0	(196,920)
Furniture and Equipment	(645,399)	(108,927)	6,703	(747,623)
Vehicles	(1,475,064)	(167,107)	0	(1,642,171)
Total Accumulated Depreciation	<u>(2,253,883)</u>	<u>(339,534)</u>	<u>6,703</u>	<u>(2,586,714)</u>
Capital Assets, Being Depreciated, Net	<u>4,113,674</u>	<u>(329,271)</u>	<u>(745)</u>	<u>3,783,658</u>
Governmental Activities Capital Assets, Net	<u>\$4,295,772</u>	<u>(\$329,271)</u>	<u>(\$745)</u>	<u>\$3,965,756</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$3,724
Support Services:	
Pupils	5,614
Instructional Staff	60,579
Administration	16,858
Operation and Maintenance of Plant	270
Pupil Transportation	162,778
	<u>249,823</u>
Unallocated Depreciation	89,711
Total Depreciation Expense	<u>\$339,534</u>

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational School District pays this annual premium to the OSP (See Note 15). The Educational Service Center contracts for property, fleet, and liability insurance with OSP.

Coverage provided by Hylant Group is as follows:

Buildings and Contents - (\$1,100 deductible)	\$ 8,536,636
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Fire	500,000
Medical expense per person	10,000
General aggregate	3,000,000
Products aggregate	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There was a \$2,854,249 decrease from the prior year in the buildings and contents insurance coverage due to three buildings no longer being covered under Educational Service Center's insurance.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2006, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2006, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 15). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$524,033, \$555,674, and \$616,430, respectively; 100 percent has been contributed for all three fiscal years.

B . State Teachers Retirement System of Ohio

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

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,492,826, \$1,410,818, and \$1,720,095, respectively; 84.93 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$69,873 made by the Educational Service Center and \$50,828 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$114,833 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$265,589.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

All regular, full-time employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave is not paid to employees upon termination of employment. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time.

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

B. Insurance Benefits

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

C. Deferred Compensation Plan

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 12 – CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal year 2004, the Educational Service Center entered into a lease-purchase agreement for the purchase and renovation of a building that the Educational Service Center uses for services to the School Districts. The initial term of the agreement was June 28, 2004 until June 30, 2004, provided that National City Bank and/or the Educational Service Center will have the right to renew for a total of not more than five additional one-year renewable terms beginning July 1, 2004. As part of the agreement for the building, National City Bank, as lessor, deposited \$1,100,000 into a separate bank account in the Educational Service Center's name.

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

Capital assets acquired by leases have been capitalized in the statement of net assets for governmental activities in the amount of \$1,100,000. A corresponding liability was recorded on the Statement of Net Assets for governmental activities. Principal payments in fiscal year 2006 totaled \$211,715.

The assets acquired through capital leases are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2006</u>
Asset:			
Building	\$1,100,000	(\$45,833)	\$1,054,167

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

	<u>June 30</u>	<u>Total Payments</u>
	2007	\$241,405
	2008	241,404
	2009	241,398
Total		<u>724,207</u>
Less: Amount Representing Interest		<u>(39,935)</u>
Present Value of Minimum Lease Payments		<u><u>\$684,272</u></u>

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2006 were as follows:

	Adjusted Amount Outstanding 6/30/2005	Additions	Deletions	Amount Outstanding 6/30/2006	Due in One Year
Compensated Absences Payable	\$485,647	\$132,367	\$149,145	\$468,869	\$216,327
Capital Lease Obligation	895,987	0	211,715	684,272	219,705
Total Governmental Activities Long-Term Obligations	<u>\$1,381,634</u>	<u>\$132,367</u>	<u>\$360,860</u>	<u>\$1,153,141</u>	<u>\$436,032</u>

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

NOTE 14 - INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The General Fund had an interfund receivable at June 30, 2006, of \$1,438,745, while Miscellaneous State Grants and the Other Governmental Funds had interfund payables of \$713,531 and \$725,214. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant and scholarship monies. When the monies are finally received, the grant or scholarship fund reimburses the General Fund for the initial advance. All are expected to be repaid within one year.

The General Fund had transfers out to the Other Governmental Funds of \$928,966. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds. The other governmental funds transferred \$329,223 to the General, Miscellaneous State Grants, and other governmental funds for payments made for CAFS program expenditures that were posted to the General Fund and for payments made for Montgomery County Department of Human Services to the Miscellaneous State Grants and Miscellaneous Federal Grants funds.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organization

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA \$69,118 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

B. Insurance Purchasing Pools

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

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

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS (continued)

Ohio School Plan - The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 16 – INVESTMENT POOL

The Educational Service Center serves as a fiscal agent for the Metropolitan Dayton Educational Cooperative Association (MDECA). The Educational Service Center pools the monies of the entity with its own for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of the interest that it earns. The investment pool consists of deposit accounts and certificates of deposit. The certificates of deposit have maturities ranging from July 2006 to December 2006, with interest rates ranging from 4.81 percent to 5.39 percent.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 – INVESTMENT POOL (continued)

Condensed financial information for the investment pool follows:

Statement of Net Assets

June 30, 2006

Assets:	
Cash	\$18,748,624
Accrued Interest Receivable	181,370
Total Assets	<u>\$18,929,994</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$2,614,149
External Portion	16,315,845
Total Net Assets Held in Trust for Pool Participants	<u>\$18,929,994</u>
Revenues:	
Interest	\$804,857
Expenses:	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting from Operations	804,857
Capital Transactions	2,807,978
Increase in Net Assets	3,612,835
Net Assets Beginning of Year	15,317,159
Net Assets End of Year	<u>\$18,929,994</u>

NOTE 17 – ACCOUNTABILITY

The following funds have deficit fund balances as of June 30, 2006:

	<u>Deficit Fund Balances</u>
Food Service	\$39,634
Head Start	50
Distance Learning	1,240

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficit in these funds to be corrected in early fiscal year 2007. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Montgomery County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 18 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

B. Litigation

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

NOTE 19 – SUBSEQUENT EVENTS

The Board of Education adopted a resolution on September 14, 2006, authorizing the purchase of property located at 3500 Kettering Boulevard, Dayton, Ohio in the amount of \$2,100,000.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF HOMELAND SECURITY				
<i>Passed through Ohio Emergency Management Agency</i>				
Disaster Grants - Public Assistance	97.036	1580-DR-113U6L5M	\$17,873	
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
<i>Nutrition Cluster:</i>				
National School Breakfast Program	10.553	048660-05PU-2005 048660-05PU-2006	2,971 <u>17,152</u>	\$2,971 <u>17,152</u>
Total National School Breakfast Program			<u>20,123</u>	<u>20,123</u>
National School Lunch Program	10.555	04886-LLP4-2005 04886-LLP4-2006	9,256 <u>40,118</u>	9,256 <u>40,118</u>
Total National School Lunch Program			<u>49,374</u>	<u>49,374</u>
Total United States Department of Agriculture - Nutrition Cluster			<u>69,497</u>	<u>69,497</u>
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Special Education Grants to States	84.027	048660-ELAA-2005 048660-6BSI-2005 048860-6BAA-2005 048660-6BSI-2005 048660-6BEC-2005 048660-6BS3-2005	965 341,191 (208) 1,437,199 180,000 90,000 <u>2,049,147</u>	13,705 657,880 1,215,836 63,264 50,204 <u>2,000,889</u>
Total Special Education Grants to States				
Title I Grants to Local Educational Agencies	84.010	048660-C1ST-2004		7,468
Special Education State Personnel Development	84.323	048660-STS1-2005 048660-STS2-2005	17,330 <u>189,018</u>	12,927 <u>175,577</u>
Total Special Education State Personnel Development			<u>206,348</u>	<u>188,504</u>
Improving Teacher Quality State Grant	84.367	048660-TRSP-2005	69,257	89,358
<i>Direct:</i>				
Fund for the Improvement - Teaching American History Grant	84.215	U215X030385	<u>341,715</u>	<u>286,139</u>
Total United States Department of Education			<u>2,666,467</u>	<u>2,572,358</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
State Children Insurance Program Title XIX	93.767	N/A	27,033	27,033
Medicaid Assistance Program	93.778	N/A	<u>416,481</u>	<u>9,857</u>
Total United States Department of Health and Human Services			<u>443,514</u>	<u>36,890</u>
Total Federal Financial Assistance for Report per Audit			<u>\$3,197,351</u>	<u>\$2,678,745</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

NOTE C - SUBRECIPIENTS

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

NOTE D – U.S. DEPARTMENT OF AGRICULTURE

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center (the Center) as of and for the fiscal year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Center's management, dated January 22, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

Educational Service Center
Montgomery County
Independent Accountants' Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

January 22, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Montgomery County Educational Service Center (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the fiscal year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

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

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

Mary Taylor, CPA
Auditor of State

January 22, 2007

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2007**