HAMILTON COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Basic Financial Statements

Year Ended June 30, 2005

With

Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Education
Hamilton County Educational Service Center
11083 Hamilton Avenue
Cincinnati, Ohio 45231-1499

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 15, 2006

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HAMILTON COUNTY EDUCATIONAL SERVICE CENTER, OHIO

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Additional Information:

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Hamilton County Educational Service Center, Ohio:

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

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

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

As described in Note 15, the Center has implemented Governmental Accounting Standards Board (GABS) Statement No. 40, *Deposits and Investment Risk Disclosures* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2006 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 36 through 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 7, 2006

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- General revenues accounted for $6,503,994 in revenue or 14% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $40,195,840 or 86% of total revenues of $46,699,834.

- The Center had $47,226,845 in expenses related to governmental activities; $40,195,840 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $6,503,994 were also used to provide for these programs.

- Net assets decreased $527,011 for governmental activities from 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *Statement of Net Assets* and *Statements of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The General, Summer School Subsidy, Head Start and Miscellaneous Federal Grants Funds are the major funds of the Center.

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The analysis of the Center's major funds begin on the balance sheet. Fund financial reports provide detailed information about the Center's major fund. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

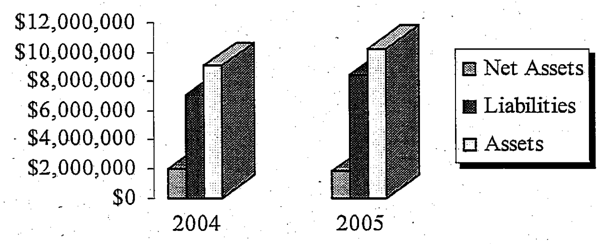
Governmental Funds All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting,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

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2004 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2004 Restated	2005
Assets		
Current Assets	$8,272,314	$9,408,327
Capital Assets	1,554,659	1,526,191
Total Assets	9,826,973	10,934,518
Liabilities		
Long-Term Liabilities	2,966,025	3,085,311
Other Liabilities	4,091,413	5,606,683
Total Liabilities	7,057,438	8,691,994
Net Assets		
Invested in Capital Assets	1,554,659	1,526,191
Restricted	1,230,159	1,325,644
Unrestricted	(15,283)	(609,311)
Total Net Assets	$2,769,535	$2,242,524



Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's assets exceeded liabilities by $2,242,524.

At year-end, capital assets represented 14% of total assets. Capital assets include buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2005, was $1,526,191. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, $1,325,644, represents resources that are subject to external restriction on how they must be used.

Table 2 shows the changes in net assets for 2004 compared to 2005.

Table 2
Changes in Net Assets

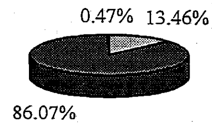
	Governmental Activities	
	2004 Restated	2005
Revenues		
Program Revenues:		
Charges for Services	$24,181,316	$24,283,882
Operating Grants	13,697,029	15,911,958
General Revenue:		
Grants and Entitlements	5,963,824	6,283,742
Other	205,257	220,252
Total Revenues	44,047,426	46,699,834
Program Expenses:		
Instruction	9,404,736	8,798,733
Support Services:		
Pupil and Instructional Staff	10,531,924	13,029,909
General and School Administrative, Fiscal and Business	9,130,685	9,658,526
Operations and Maintenance	115,342	125,737
Central	574,277	811,825
Operation of Non-Instructional Services	12,879,489	14,802,115
Total Expenses	42,636,453	47,226,845
Change in Net Assets	1,410,973	(527,011)
Beginning Net Assets	1,358,562	2,769,535
Ending Net Assets	$2,769,535	$2,242,524

Governmental Activities

The Center revenues are mainly from two sources, fee for service and state foundation. Fee for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. State foundation revenues are given directly to the Center and are calculated based on the ADM of the districts. Charges for services, operating grants and grants and entitlements increased $2,534,847 due to fee increases, a school improvement contract with Cincinnati Public School District and an increase in grant monies received.

The District's revenues are demonstrated by the following graph:

Revenue Sources	2005	Percent of Total
General Grants	$6,283,742	13.46%
Program Revenues	40,195,840	86.07%
Other Revenues	220,252	0.47%
	$46,699,834	100.00%



Instruction comprises 19% of governmental program expenses. Program expenses increased due to the school improvement contract with Cincinnati Public Schools and other districts in 2005. The Center hired several teachers and aides to instruct this project. Support services expenses were 50% of governmental program expenses. Operation of non-instructional services were 31% of governmental program expenses.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004 Restated	2005	2004 Restated	2005
Instruction	$9,404,736	$8,798,733	($1,933,140)	($996,050)
Support Services:				
Pupil and Instructional Staff	10,531,924	13,029,909	(2,099,305)	(3,521,942)
General and School Administrative, Fiscal and Business	9,130,685	9,658,526	(753,874)	(151,305)
Operations and Maintenance	115,342	125,737	(8,718)	(3,132)
Central	574,277	811,825	138,125	(323,362)
Operation of Non-Instructional Services	12,879,489	14,802,115	(101,196)	(2,035,214)
Total Expenses	$42,636,453	$47,226,845	($4,758,108)	($7,031,005)

The Center's Major Funds

The District has four major governmental funds: the General Fund, Summer School Subsidy Fund, Head Start Fund and Miscellaneous Federal Grants. Assets of the General Fund comprised $5,713,374 (49%), the Summer School Subsidy Fund comprised $1,241,199 (11%), the Head Start Fund comprised $416,031 (3%) and Miscellaneous Federal Grants Fund comprised $1,530,812 (13%) of the total $11,595,128 governmental fund assets.

General Fund: Fund balance at June 30, 2005 was $801,135, including $771,556 of unreserved balance. The primary reasons for the increase in fund balance were increases in contract services revenue and intergovernmental revenue. This is a result of fee increases and increases in grant monies received.

Summer School Subsidy Fund: Fund balance at June 30, 2005 was $289,042. The primary reasons for the decrease in fund balance were decreases in intergovernmental revenue. This is a result of the decrease in grant monies received.

Head Start Fund: Fund balance at June 30, 2005 was $54,534. The increase in fund balance was mainly due to the Center's current year revenues exceeding expenditures.

Miscellaneous Federal Grants Fund: Fund balance at June 30, 2005 was $113,693 an increase in fund balance of $34,618. The fund balance remained fairly consistent from 2004 to 2005.

General Fund Budgeting Highlights

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

The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was $31,473,966, compared to the original budget estimates of $29,365,887. Of the $2,108,079 difference, most was due to higher than expected contract services revenue for fiscal year 2005.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the Board had $1,526,191 invested in buildings and improvements and equipment. Table 4 shows fiscal 2004 balances compared to 2005:

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

	Governmental Activities	
	2004	2005
Buildings and Improvements	$5,044	$4,437
Equipment	1,549,615	1,521,754
Total Net Capital Assets	$1,554,659	$1,526,191

See Notes to the Basic Financial Statements for further details on the Center's capital assets.

Debt

At June 30, 2005, the Center had no outstanding debt obligations.

For the Future

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton County districts are expected to increase in FY 2006 due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2006.

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Center's and the method to which they are funded. The ODE must submit a report to the legislature in March 2004. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Hamilton County Educational Service Center
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$5,388,660
Receivables:	
Accounts	772,533
Intergovernmental	3,241,571
Inventory	5,563
Depreciable Capital Assets, Net	1,526,191
Total Assets	10,934,518
Liabilities:	
Accounts Payable	925,792
Accrued Wages and Benefits	4,680,891
Long-Term Liabilities:	
Due Within One Year	79,980
Due In More Than One Year	3,005,331
Total Liabilities	8,691,994
Net Assets:	
Invested in Capital Assets	1,526,191
Restricted for:	
Special Revenue	1,325,644
Unrestricted	(609,311)
Total Net Assets	$2,242,524

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Special	$8,599,469	$7,107,062	$472,190	($1,020,217)
Vocational	199,264	222,717	714	24,167
Support Services:				
Pupil	6,748,353	4,964,906	238,594	(1,544,853)
Instructional Staff	6,281,556	2,343,297	1,961,170	(1,977,089)
General Administration	43,622	34,982	112	(8,528)
School Administration	7,836,136	2,463,578	5,591,614	219,056
Fiscal	1,147,522	597,614	318,683	(231,225)
Business	631,246	499,038	1,600	(130,608)
Operations and Maintenance	125,737	15,365	107,240	(3,132)
Central	811,825	470,921	17,542	(323,362)
Operation of Non-Instructional Services	14,802,115	5,564,402	7,202,499	(2,035,214)
Totals	$47,226,845	$24,283,882	$15,911,958	($7,031,005)

General Revenues:	
Grants and Entitlements not Restricted to Specific Program	6,283,742
Unrestricted Contributions	4,500
Investment Earnings	91,331
Other Revenues	124,421
Total General Revenues	6,503,994
Change in Net Assets	(527,011)
Net Assets Beginning of Year	2,769,535
Net Assets End of Year	$2,242,524

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2005

	General	Summer School Subsidy	Head Start	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Investments	$1,283,500	$889,886	$416,031	$675,990	$2,123,253	$5,388,660
Receivables:						
Accounts	772,533	0	0	0	0	772,533
Intergovernmental	1,464,977	351,313	0	854,822	570,459	3,241,571
Interfund	2,186,801	0	0	0	0	2,186,801
Inventory	5,563	0	0	0	0	5,563
Total Assets	5,713,374	1,241,199	416,031	1,530,812	2,693,712	11,595,128
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	95,958	600,103	10,698	108,448	110,585	925,792
Accrued Wages and Benefits	4,110,248	0	314,799	88,810	167,034	4,680,891
Interfund Payable	0	352,000	36,000	1,041,000	757,801	2,186,801
Deferred Revenue	706,033	54	0	178,861	559,127	1,444,075
Total Liabilities	4,912,239	952,157	361,497	1,417,119	1,594,547	9,237,559
Fund Balances:						
Reserved for Encumbrances	24,016	289,442	209,087	398,190	695,950	1,616,685
Reserved for Inventory	5,563	0	0	0	0	5,563
Unreserved, Undesignated, Reported in:						
General Fund	771,556	0	0	0	0	771,556
Special Revenue Funds	0	(400)	(154,553)	(284,497)	3,215	(436,235)
Capital Projects Funds	0	0	0	0	400,000	400,000
Total Fund Balances	801,135	289,042	54,534	113,693	1,099,165	2,357,569
Total Liabilities and Fund Balances	$5,713,374	$1,241,199	$416,031	$1,530,812	$2,693,712	$11,595,128

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balance		$2,357,569
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.		1,526,191
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	1,444,075	
		1,444,075
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	(3,085,311)	
		(3,085,311)
Net Assets of Governmental Activities		$2,242,524

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Summer School Subsidy	Head Start	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:						
Tuition and Fees	$40,150	$0	$0	$0	$0	$40,150
Investment Earnings	91,331	0	0	0	0	91,331
Intergovernmental	4,895,328	1,275,330	4,624,827	2,961,864	5,422,314	19,179,663
Contract Services	26,879,819	0	0	0	0	26,879,819
Other Revenues	6,416	0	0	0	29,500	35,916
Total Revenues	31,913,044	1,275,330	4,624,827	2,961,864	5,451,814	46,226,879
Expenditures:						
Current:						
Instruction:						
Special	8,635,797	0	0	487	137,360	8,773,644
Vocational	196,600	0	0	0	0	196,600
Support Services:						
Pupil	6,466,861	0	0	0	206,680	6,673,541
Instructional Staff	3,848,762	0	0	14,017	2,420,943	6,283,722
General Administration	43,622	0	0	0	0	43,622
School Administration	2,961,947	1,508,293	166,311	478,937	2,600,073	7,715,561
Fiscal	844,362	38,260	62,267	85,645	127,572	1,158,106
Business	632,774	0	0	0	0	632,774
Operations and Maintenance	21,806	0	0	0	103,931	125,737
Central	638,681	0	0	0	96,180	734,861
Operation of Non-Instructional Services	7,185,952	0	4,201,108	2,332,846	987,882	14,707,788
Total Expenditures	31,477,164	1,546,553	4,429,686	2,911,932	6,680,621	47,045,956
Excess of Revenues Over (Under) Expenditures	435,880	(271,223)	195,141	49,932	(1,228,807)	(819,077)
Other Financing Sources (Uses):						
Transfers In	0	0	0	0	215,314	215,314
Transfers (Out)	(200,000)	0	0	(15,314)	0	(215,314)
Total Other Financing Sources (Uses)	(200,000)	0	0	(15,314)	215,314	0
Net Change in Fund Balance	235,880	(271,223)	195,141	34,618	(1,013,493)	(819,077)
Fund Balance Beginning of Year, Restated	565,255	560,265	(140,607)	79,075	2,112,658	3,176,646
Fund Balance End of Year	$801,135	$289,042	$54,534	$113,693	$1,099,165	$2,357,569

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance - Total Governmental Funds			($819,077)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.			
Capital assets used in governmental activities		398,011	
Depreciation Expense		(426,262)	
			(28,251)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.			(217)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Intergovernmental	473,172		
			473,172
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Compensated Absences	(152,638)		
			(152,638)
Change in Net Assets of Governmental Activities			($527,011)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2005

	Agency
Assets:	
Equity in Pooled Cash and Investments	$1,871,610
Receivables:	
Intergovernmental	50,216
Total Assets	1,921,826
Liabilities:	
Accounts Payable	191,424
Other Liabilities	1,730,402
Total Liabilities	$1,921,826

See accompanying notes to the basic financial statements.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

1. DESCRIPTION OF THE BOARD

The Hamilton County Educational Service Center serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Hamilton County Educational Service Center's Governing Board is comprised of five members who are resident electors of the County School district. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the seven local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the seven local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Joint Vocational District have one or another types of cooperative service agreements with the County School system.

The Office of the Board is regularly referred to as the Hamilton County Educational Service Center (HCESC) which is housed in a separate, modern facility in a complex known as Civic Center North, a development provided for diverse services by the Board of County Commissioners. The HCESC serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and his staff of approximately 614 certificated and non-certificated support employees.

REPORTING ENTITY

For financial reporting purposes the Board's financial statements include all funds and account groups of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the board. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Board would consider an organization to be a component unit if:

1. The Board appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Board; or

2. The organization was fiscally dependent upon the Board; or

3. The nature of the relationship between the Board and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Board misleading.

The Board included no component units in the financial report.

The Service Center provides fiscal agent service to the Hamilton/Clermont Cooperative Association (H/CCA), 7615 Harrison Avenue, Cincinnati, Ohio 45231. H/CCA is one of 24 regional Information Technology Centers (ITC) established by the state of Ohio. H/CCA is a member of the Ohio Educational Computer Network. H/CCA provides data and Internet services for public and non-public schools in Greater Cincinnati Metropolitan Area. This includes collection and distribution of data for financial, student and media services. H/CCA also provides technical and networking service to affiliate schools.

The Site Director and his staff manages the day-to-day affairs of H/CCA. A Board of Directors composed of member school's superintendents approves the long term path for the site, as determined by the Site Director and an Executive Committee composed of five superintendents and two treasurers from member schools.

The Service Center provides fiscal agent service to the Southwestern Ohio Special Education Regional Resource Center (SWO SERRC), 1301 Bonnell, Cincinnati, Ohio 45215. SERRC is one of 16 regional centers serving the state of Ohio. The SWO SERRC is a separate agency that service the southwestern corner of the state, which includes Butler, Clermont, Hamilton, and Warren Counties, and the City of Cincinnati through cooperative agreements with regard to special education mandates established by the State of Ohio.

SWO SERRC is part of a federally funded project under the Ohio Department of Education Office for Exceptional Children. SWO SERRC has a Governing Board made up of superintendents of schools; special and general education personnel; parents of children with disabilities; and representatives from nonpublic and community schools, county boards of mental retardation and developmental disabilities, regional institutions, and universities in the region – ensures that regional needs are addressed. The Service Center is the fiscal agent for SWO SERRC for whom the superintendent and treasurer have responsibility for ensuring that the expenditure of SERRC project funds is made in accordance with all applicable local, state, and federal laws and regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board 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 most significant of the Board's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

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

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The Board 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 Board functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Board are grouped into the categories governmental and fiduciary.

Governmental Funds

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

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

Summer School Subsidy Fund – The summer school subsidy fund is used to account for all financial resources that are associated with the summer school subsidy program.

Head Start Fund – The head start fund is used to account for all financial resources that are associated with the head start program.

Miscellaneous Federal Grants – The miscellaneous federal grants fund is used to account for federal funds that are legally restricted to expenditures for specified purposes.

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 School Board under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Board's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The Board's only fiduciary fund is an Agency fund which accounts for assets and liabilities generated by the data center.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual 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. 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 Board, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, included 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 year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: grants and 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. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

EQUITY IN POOLED CASH AND INVESTMENTS

To improve cash management, cash received by the Board is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2005 amounted to $91,331.

For presentation on the financial statements, all investments and deposits are reported as "Equity in Pooled Cash and Investments".

During the fiscal year, the Board held donated stock which is held at fair value. The fair value is based on quoted market prices.

INVENTORY

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and are expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of $2,000. The Board 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.

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

Description	Governmental Activities Estimated Lives
Buildings	30 - 50 years
Building Improvements	10 - 40 years
Improvements other than Buildings	10 - 20 years
Furniture, Fixtures and Equipment	5 - 20 years

COMPENSATED ABSENCES

The Board reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 Board will compensate the employees for the benefits through paid time off or some other means. The Board records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Board's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

Vacation	Certified	Administrators (261 day employees only)	Non-Certificated (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum.Vac.	100% of Daily Rate of Accum. Vac.

Sick Leave Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

INTERFUND ASSETS/LIABILITIES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

INTERFUND ACTIVITY

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and inventory. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

ESTIMATES

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The Board maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Board into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Board. Such monies must by law be maintained either as cash in the Board treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

(1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

(2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

(3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

(4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

(5) Bonds, and other obligations of the State of Ohio.

(6) The Ohio State Treasurer's investment pool (STAR Ohio).

(7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

(8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, $8,017,700 of the Center's bank balance of $8,317,700 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

Investments

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

Investment Type	Fair Value	Weighed Average Maturity (Years)
Stocks*	$51,180	0.00
Total Fair Value	$51,180	
Portfolio Weighted Average Maturity		0.00

* The amount of $51,180 was donated stock by a private individual.

Interest rate risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Concentration of credit risk – The Center places no limit on the amount it may invest in any one issuer. 100% of the Center's investments at fiscal year end were in stocks.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts, interfund and intergovernmental grants. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Buildings and Improvements	$6,076	$0	$0	$6,076
Equipment	4,753,900	398,011	2,173	5,149,738
Totals at Historical Cost	4,759,976	398,011	2,173	5,155,814
Less Accumulated Depreciation:				
Buildings and Improvements	1,032	607	0	1,639
Equipment	3,204,285	425,655	1,956	3,627,984
Total Accumulated Depreciation	3,205,317	426,262	1,956	3,629,623
Governmental Activities Capital Assets, Net	$1,554,659	($28,251)	$217	$1,526,191

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$427
Support Services:	
Pupil	2,433
Instructional Staff	5,148
School Administration	107,255
Fiscal	449
Business	1,060
Central	292,559
Operation of Non-Instructional Services	16,931
Total Depreciation Expense	$426,262

6. LONG-TERM LIABILITIES

Governmental Activities:	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
Compensated Absences	$2,966,025	$440,574	$321,288	$3,085,311	$79,980
Total Governmental Activities Long-Term Liabilities	$2,966,025	$440,574	$321,288	$3,085,311	$79,980

Compensated Absences will be paid from the fund from which the person is paid.

7. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Board 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 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current Board rate is 14% of annual covered payroll. A portion of the Board's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion being 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 Board's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were $1,978,019, $2,024,895, and $1,983,269 respectively; 94.2% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

STATE TEACHERS RETIREMENT SYSTEM

The Board participates in 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 Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

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

The Board's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were $4,664,568, $4,317,350, and $3,892,357 respectively; 94.2% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

8. POST EMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled $194,357 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS 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 premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. For the District, this amount equaled $484,615 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 2005, the minimum pay was established at $27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

9. CONTINGENT LIABILITIES

GRANTS

The Board receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Board as of June 30, 2005.

LITIGATION

The Board's attorney estimates that all other potential claims against the Board not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Board.

10. RISK MANAGEMENT

The Hamilton County 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. The Hamilton County Educational Service Center carries insurance coverage with the following companies.

COVERAGE	COMPANY
Automobile	The Indiana Insurance Company
Property	The Indiana Insurance Company
General Liability	The Indiana Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

COVERAGE	LIMITS	DEDUCTIBLE
Automobile	$1,000,000 each occurrence	$500 collision
Property	$1,000,000 each occurrence	$500 each loss
General Liability	$1,000,000 each occurrence $2,000,000 general aggregate	

The Hamilton County Educational Service Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

11. STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Educational Service Center by $37. This amount is provided from State resources.

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

12. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

	Deficit
Other Governmental Funds:	
Data Communications	$34,697
Title I Disadvantaged Children	259,993
Drug Free School Grant	13,392
IDEA Preschool Grant	123,751
Modernization of Vocational Education	23,000
Improving Teacher Quality	4,549

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

13. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005, consisted of the following interfund receivables, interfund payable, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$2,186,801	$0	$0	$200,000
Miscellaneous Federal Grants	0	0	0	15,314
Other Governmental Funds	0	2,186,801	215,314	0
Total All Funds	$2,186,801	$2,186,801	$215,314	$215,314

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

14. JOINTLY GOVERNED ORGANIZATION

Hamilton/Clermont Cooperative Association

The Hamilton/Clermont Cooperative Assocation (HCCA) is a governmental jointly governed organization consisting of 31 school districts. The jointly governed 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 districts. Each of the governments of these schools supports HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 31 school districts.

Southwestern Ohio Special Education Regional Resource Center

Southwestern Ohio Special Education Regional Resource Center (SWO SERRC) is a jointly governed organization created by the Ohio Department of Education. Approximately seventy local, city, exempted village, community and private school districts receive services from SWO SERRC. SWO SERRC is operated under regulations and policies established by the Ohio Department of Education and its own governing board. The SWO SERRC Governing Board has 23 members including superintendents, special education directors and assistant superintendents, parents and community members and fiscal agent superintendents. There is also a SERRC executive board that is made up of 7 members, 6 superintendents and 1 parent. The Service Center acts as fiscal agent for the SWO SERRC through a written agreement. SWO SERRC receives funding from state and federal grants.

15. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For 2005, the District has implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the General, Summer School Subsidy, Head Start, Miscellaneous Federal Grants and Other Governmental Funds of the District as they were previously reported as of June 30, 2004:

	General	Summer School Subsidy	Head Start	Miscellaneous Federal Grants	Other Governmental Funds
Fund Balances, June 30, 2004	$627,556	$560,265	($136,413)	$79,075	$2,115,770
GASB Technical Bulletin No. 2004-2	(62,301)	0	(4,194)	0	(3,112)
Restated Fund Balance, June 30, 2004	$565,255	$560,265	($140,607)	$79,075	$2,112,658

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	37,461	40,150	$40,150	$0
Investment Earnings	86,769	92,998	92,998	0
Intergovernmental	5,523,077	5,919,560	5,919,560	0
Charges for Services	906	971	971	0
Contract Services	23,717,674	25,420,287	25,420,287	0
Total Revenues	29,365,887	31,473,966	31,473,966	0
Expenditures:				
Current:				
Instruction:				
Special	8,498,818	8,541,355	8,565,127	(23,772)
Vocational	191,158	192,114	192,649	(535)
Support Services:				
Pupil	6,375,742	6,407,654	6,425,487	(17,833)
Instructional Staff	3,672,221	3,690,601	3,700,872	(10,271)
General Administration	43,235	43,451	43,572	(121)
School Administration	2,858,786	2,873,095	2,881,091	(7,996)
Fiscal	826,843	830,981	833,294	(2,313)
Business	632,914	636,082	637,852	(1,770)
Operations and Maintenance	26,832	26,966	27,041	(75)
Central	623,076	626,194	627,937	(1,743)
Operation of Non-Instructional Services	7,004,607	7,039,666	7,059,258	(19,592)
Capital Outlay	1,488	1,496	1,500	(4)
Total Expenditures	30,755,720	30,909,655	30,995,680	(86,025)
Excess of Revenues Over (Under) Expenditures	(1,389,833)	564,311	478,286	(86,025)
Other financing sources (uses):				
Advances In	1,689,702	1,811,000	1,811,000	0
Advances (Out)	(2,235,856)	(2,247,047)	(2,253,301)	(6,254)
Transfers (Out)	(198,452)	(199,445)	(200,000)	(555)
Total Other Financing Sources (Uses)	(744,606)	(635,492)	(642,301)	(6,809)
Net Change in Fund Balance	(2,134,439)	(71,181)	(164,015)	(92,834)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,333,486	1,333,486	1,333,486	0
Fund Balance End of Year	($800,953)	$1,262,305	$1,169,471	($92,834)

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	Summer School Subsidy Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$1,018,398	$669,169	$924,071	$254,902
Total Revenues	1,018,398	669,169	924,071	254,902
Expenditures:				
Current:				
Support Services:				
School Administration	1,442,229	1,799,736	1,799,735	1
Fiscal	30,660	38,260	38,260	0
Total Expenditures	1,472,889	1,837,996	1,837,995	1
Excess of Revenues Over (Under) Expenditures	(454,491)	(1,168,827)	(913,924)	254,903
Other financing sources (uses):				
Advances In	387,932	254,902	352,000	97,098
Total Other Financing Sources (Uses)	387,932	254,902	352,000	97,098
Net Change in Fund Balance	(66,559)	(913,925)	(561,924)	352,001
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	562,665	562,665	562,665	0
Fund Balance End of Year	$496,106	($351,260)	$741	$352,001

See accompanying notes to the required supplementary information.

	Head Start Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$5,030,061	$4,624,826	$4,624,827	$1
Total Revenues	5,030,061	4,624,826	4,624,827	1
Expenditures:				
Current:				
Support Services:				
School Administration	146,240	149,556	139,279	10,277
Fiscal	85,642	87,585	81,566	6,019
Operation of Non-Instructional Services	4,567,352	4,670,922	4,349,952	320,970
Total Expenditures	4,799,234	4,908,063	4,570,797	337,266
Excess of Revenues Over (Under) Expenditures	230,827	(283,237)	54,030	337,267
Other financing sources (uses):				
Advances In	39,154	36,000	36,000	0
Advances (Out)	(335,993)	(343,612)	(320,000)	23,612
Total Other Financing Sources (Uses)	(296,839)	(307,612)	(284,000)	23,612
Net Change in Fund Balance	(66,012)	(590,849)	(229,970)	360,879
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	426,891	426,891	426,891	0
Fund Balance End of Year	$360,879	($163,958)	$196,921	$360,879

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	Miscellaneous Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$3,312,813	$2,139,708	$2,285,903	$146,195
Total Revenues	3,312,813	2,139,708	2,285,903	146,195
Expenditures:				
Current:				
Support Services:				
Instructional Staff	21,046	14,017	14,017	0
School Administration	672,014	447,587	447,571	16
Fiscal	132,385	88,173	88,170	3
Operation of Non-Instructional Services	4,008,469	2,669,789	2,669,697	92
Total Expenditures	4,833,914	3,219,566	3,219,455	111
Excess of Revenues Over (Under) Expenditures	(1,521,101)	(1,079,858)	(933,552)	146,306
Other financing sources (uses):				
Advances In	1,508,655	974,423	1,041,000	66,577
Advances (Out)	(115,613)	(77,003)	(77,000)	3
Transfers In	136,083	87,895	93,900	6,005
Transfers (Out)	(163,982)	(109,218)	(109,214)	4
Total Other Financing Sources (Uses)	1,365,143	876,097	948,686	72,589
Net Change in Fund Balance	(155,958)	(203,761)	15,134	218,895
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	156,076	156,076	156,076	0
Fund Balance End of Year	$118	($47,685)	$171,210	$218,895

See accompanying notes to the required supplementary information.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2005

1. BUDGETARY PROCESS

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for the General Fund, Head Start/TANF and the Miscellaneous State Grants on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center's Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).

4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund, Summer Subsidy fund, Head Start fund, and Miscellaneous Federal Grants fund:

Net Change in Fund Balance

	General	Summer School Subsidy	Head Start	Miscellaneous Federal Grants
GAAP Basis	$235,880	($271,223)	$195,141	$34,618
Net Adjustment for Revenue Accruals	1,371,922	741	36,000	458,939
Net Adjustment for Expenditure Accruals	(1,708,968)	597,703	(242,002)	26,359
Encumbrances	(62,849)	(889,145)	(219,109)	(504,782)
Budget Basis	($164,015)	($561,924)	($229,970)	$15,134

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Federal Revenues	Federal Expenditures
U.S. Department of Agriculture:				
(Passed through Ohio Department of Education)				
Child & Adult Care Food Program	n/a	10.558	207,580	297,609
Total U.S. Department of Agriculture			207,580	297,609
Institute of Museum & Library Services:				
(Passed through State Library of Ohio)				
State Library Program	n/a	45.310	3,371	4,024
Total Institute of Museum & Library Services			3,371	4,024
U.S. Department of Education:				
(Passed through Ohio Department of Education)				
Title I Grants to Local Educational Agencies	C1	84.010	279,199	446,893
Safe and Drug-Free Schools and Communities - State Grants	DR	84.186	222,728	234,691
English Language Acquisition Grants	T3	84.365	8,647	42,327
Improving Teacher Quality State Grants	TR	84.367	449,716	348,859
Special Education Cluster:				
(Passed through Ohio Department of Education)				
Special Education - Grants to States	6B	84.027	2,338,924	2,194,881
Special Education - Preschool Grants	PG	84.173	48,161	207,550
(Passed through Franklin Co. ESC)				
Special Education - Grants to States	n/a	84.027	15,000	14,017
Total Special Education Cluster			2,402,085	2,416,448
Total U.S. Department of Education			3,362,375	3,489,218
U.S. Department of Health & Human Services:				
(Passed through Ohio Department of Education)				
Temporary Assistance for Needy Families	n/a	93.558	148,777	-
(Passed through Cincinnati Public Schools)				
Temporary Assistance for Needy Families	n/a	93.558	1,872,919	2,391,044
Total Temporary Assistance for Needy Families			2,021,696	2,391,044
(Passed through Cincinnati-Hamilton Co. Community Action Agency)				
Head Start	n/a	93.600	4,417,247	4,054,078
Total U.S. Department of Health & Human Sevices			6,438,943	6,445,122
Total Federal Awards			$ 10,012,269	10,235,973

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Hamilton County Educational Service Center, Ohio:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton County Educational Service Center, Ohio (the Center) as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 7, 2006 wherein we noted that the Center implemented Governmental Accounting Standards Board Statement No. 40 as well as Governmental Accounting Standards Board Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance And Other Matters

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

We noted certain matters that we reported to management of the Center in a separate letter dated February 7, 2006.

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 7, 2006

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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

To the Board of Education
Hamilton County Educational Service Center, Ohio:

Compliance

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

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

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Center's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 7, 2006

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified that are not considered to be material weaknesses?	yes
Noncompliance material to financial statements noted?	no

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified not considered to be material weaknesses?	yes
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes
Identification of major programs:	
CFDA 93.600 – Head Start	
Dollar threshold to distinguish between Type A and Type B Programs:	$307,079
Auditee qualified as low-risk auditee?	yes

Section II – Financial Statement Findings

Finding 2005-1 – Reportable Condition

Condition:	In testing controls over nonpayroll disbursements, we noted that 10 of the checks in our sample of 60 items did not have requisitions approved by a department or location supervisor prior to being paid.
Criteria:	Center policy requires that requisitions for purchase be approved by a department or location supervisor prior to being submitted to the Treasurer's office for purchase.
Effect:	Making payments on unapproved purchases could result in unauthorized disbursements.
Cause:	Lack of adherence to prescribed accounting policies and procedures.
Recommendation:	We recommend that procedures be developed to strengthen adherence to internal controls over disbursements.

Section III – Federal Award Findings and Questioned Costs

Finding 2005-1 under Section II – Financial Statement Findings is applicable under this section as well.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Schedule of Prior Audit Findings

Year Ended June 30, 2005

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance for major federal programs were reported in the prior year.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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EDUCATIONAL SERVICE CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 25, 2006