



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Montgomery County Educational Service Center
Montgomery County
451 W. Third Street
Dayton, Ohio 45422

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Montgomery County Educational Service Center, Montgomery County, (the Educational Service Center), as of and for the year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Montgomery County, as of June 30, 2000, and the results of its operations, and the Statement of Changes in Net Assets - Investment Trust Fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2001 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards expenditures 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

March 26, 2001

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$5,420,091	\$2,630,768	\$67,135
Receivables:			
Intergovernmental	1,812,301	48,754	
Accrued Interest	110,799		729
Interfund	31,841		
Prepaid Items	2,852		21,114
Inventory of Supplies and Materials	8,568		
Fixed Assets			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	<u>7,386,452</u>	<u>2,679,522</u>	<u>88,978</u>
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	127,981	181,199	
Accrued Wages and Benefits Payable	1,639,718	37,358	
Intergovernmental Payable	199,211	16,736	
Interfund Payable		31,841	
Undistributed Monies			
Deferred Revenue	770,372	47,645	
Compensated Absences Payable	11,121	672	
Total Liabilities	<u>2,748,403</u>	<u>315,451</u>	
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Fund Balance:			
Held in Trust for Pool Participants			
Reserved for Encumbrances	351,302	505,908	
Reserved for Inventory of Supplies and Materials	8,568		
Unreserved, Undesignated	4,278,179	1,858,163	88,978
Total Fund Equity and Other Credits	<u>4,638,049</u>	<u>2,364,071</u>	<u>88,978</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$7,386,452</u>	<u>\$2,679,522</u>	<u>\$88,978</u>

See Accompanying Notes to the General Purpose Financial Statements.

<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$3,096,833			\$11,214,827
			1,861,055
15,351			126,879
			31,841
			23,966
			8,568
	\$4,500,574		4,500,574
		\$282,737	282,737
<u>3,112,184</u>	<u>4,500,574</u>	<u>282,737</u>	<u>18,050,447</u>
			309,180
			1,677,076
		23,759	239,706
			31,841
1,710,912			1,710,912
			818,017
		258,978	270,771
<u>1,710,912</u>		<u>282,737</u>	<u>5,057,503</u>
	4,500,574		4,500,574
1,401,272			1,401,272
			857,210
			8,568
			6,225,320
<u>1,401,272</u>	<u>4,500,574</u>		<u>12,992,944</u>
<u>\$3,112,184</u>	<u>\$4,500,574</u>	<u>\$282,737</u>	<u>\$18,050,447</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General	Special Revenue	Capital Projects	Total (Memorandum Only)
Revenues:				
Intergovernmental	\$15,875,184	\$2,826,483		\$18,701,667
Interest	517,107		\$3,601	520,708
Tuition and Fees	4,052,757	31,992		4,084,749
Gifts and Donations		5,848		5,848
Miscellaneous		46,690		46,690
Total Revenues	20,445,048	2,911,013	3,601	23,359,662
Expenditures:				
Current:				
Instruction:				
Regular		98,392		98,392
Special	7,927,229	487,560		8,414,789
Support Services:				
Pupils	3,375,059	224,482		3,599,541
Instructional Staff	4,513,085	1,538,594	6,894	6,058,573
Board of Education	41,686			41,686
Administration	1,507,791	71,282		1,579,073
Fiscal	246,642	20,128		266,770
Business	280,000	11,797		291,797
Operation and Maintenance of Plant	12,323	2,546		14,869
Pupil Transportation	364,271	3,650		367,921
Central	674,089	27,533		701,622
Operation of Non-Instructional Services		1,327		1,327
Total Expenditures	18,942,175	2,487,291	6,894	21,436,360
Excess of Revenues Over (Under) Expenditures	1,502,873	423,722	(3,293)	1,923,302
Other Financing Sources (Uses):				
Operating Transfers In	187,076	345,801		532,877
Operating Transfers Out	(345,801)	(187,076)		(532,877)
Total Other Financing Sources (Uses)	(158,725)	158,725		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,344,148	582,447	(3,293)	1,923,302
Fund Balances at Beginning of Year	3,297,475	1,781,624	92,271	5,171,370
Decrease in Reserve for Inventory	(3,574)			(3,574)
Fund Balances at End of Year	\$4,638,049	\$2,364,071	\$88,978	\$7,091,098

See Accompanying Notes to the General Purpose Financial Statements.

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$15,852,311	\$15,852,311		\$2,850,411	\$2,850,411	
Interest	478,025	478,025				
Tuition and Fees	3,684,978	3,684,978		30,897	30,897	
Gifts and Donations				5,848	5,848	
Miscellaneous				46,690	46,690	
Total Revenues	<u>20,015,314</u>	<u>20,015,314</u>	<u>0</u>	<u>2,933,846</u>	<u>2,933,846</u>	<u>0</u>
Expenditures:						
Current:						
Instruction:						
Regular				111,454	111,454	
Special	8,160,847	8,160,847		487,560	487,560	
Support Services:						
Pupils	3,421,697	3,421,697		266,808	266,808	
Instructional Staff	4,863,301	4,863,301		2,157,147	2,157,147	
Board of Education	39,109	39,109				
Administration	1,455,154	1,455,154		80,309	80,309	
Fiscal	252,873	252,873		38,440	38,440	
Business	320,433	320,433		13,766	13,766	
Operation and Maintenance of Plant	13,679	13,679		2,875	2,875	
Pupil Transportation	154,610	154,610		3,878	3,878	
Central	694,557	694,557		35,647	35,647	
Operation of Non-Instructional Services				1,327	1,327	
Total Expenditures	<u>19,376,260</u>	<u>19,376,260</u>	<u>0</u>	<u>3,199,211</u>	<u>3,199,211</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>639,054</u>	<u>639,054</u>	<u>0</u>	<u>(265,365)</u>	<u>(265,365)</u>	<u>0</u>
Other Financing Sources (Uses):						
Operating Transfers In	236,511	236,511		345,801	345,801	
Operating Transfers Out	(555,462)	(555,462)		(187,076)	(187,076)	
Advances In	13,422	13,422		31,841	31,841	
Advances Out	(31,841)	(31,841)		(13,422)	(13,422)	
Refund of Prior Year Receipts				(23,941)	(23,941)	
Total Other Financing Sources (Uses)	<u>(337,370)</u>	<u>(337,370)</u>	<u>0</u>	<u>153,203</u>	<u>153,203</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>301,684</u>	<u>301,684</u>	<u>0</u>	<u>(112,162)</u>	<u>(112,162)</u>	<u>0</u>
Fund Balances at Beginning of Year	4,057,918	4,057,918		1,535,366	1,535,366	
Prior Year Encumbrances Appropriated	492,924	492,924		536,757	536,757	
Fund Balances at End of Year	<u>\$4,852,526</u>	<u>\$4,852,526</u>	<u>\$0</u>	<u>\$1,959,961</u>	<u>\$1,959,961</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Total (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$18,702,722	\$18,702,722	
\$3,204	\$3,204		481,229	481,229	
			3,715,875	3,715,875	
			5,848	5,848	
			46,690	46,690	
<u>3,204</u>	<u>3,204</u>	<u>0</u>	<u>22,952,364</u>	<u>22,952,364</u>	<u>0</u>
			111,454	111,454	
			8,648,407	8,648,407	
			3,688,505	3,688,505	
6,894	6,894		7,027,342	7,027,342	
			39,109	39,109	
			1,535,463	1,535,463	
			291,313	291,313	
21,114	21,114		334,199	334,199	
			37,668	37,668	
			158,488	158,488	
			730,204	730,204	
			1,327	1,327	
<u>28,008</u>	<u>28,008</u>	<u>0</u>	<u>22,603,479</u>	<u>22,603,479</u>	<u>0</u>
<u>(24,804)</u>	<u>(24,804)</u>	<u>0</u>	<u>348,885</u>	<u>348,885</u>	<u>0</u>
			582,312	582,312	
			(742,538)	(742,538)	
			45,263	45,263	
			(45,263)	(45,263)	
			(23,941)	(23,941)	
<u>0</u>	<u>0</u>	<u>0</u>	<u>(184,167)</u>	<u>(184,167)</u>	<u>0</u>
(24,804)	(24,804)	0	164,718	164,718	0
91,939	91,939		5,685,223	5,685,223	
			1,029,681	1,029,681	
<u>\$67,135</u>	<u>\$67,135</u>	<u>\$0</u>	<u>\$6,879,622</u>	<u>\$6,879,622</u>	<u>\$0</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Revenues:	
Interest	\$50,840
Expenses:	
Operating	<u>0</u>
Net Increase in Assets Resulting from Operations	50,840
Capital Transactions	<u>(115,098)</u>
Increase (Decrease) in Assets	(64,258)
Net Assets Beginning of Year	<u>1,465,530</u>
Net Assets at End of Year	<u><u>\$1,401,272</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. REPORTING ENTITY

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

The Montgomery County Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center is staffed by 207 noncertified and 203 certificated full-time teaching personnel that provide services to the local school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organizations' governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes for the organization. The Educational Service Center does not have any component units.

The Educational Service Center is associated with two jointly governed organizations and one insurance purchasing pool. These organizations include the Metropolitan Dayton Educational Cooperative Association (MDECA), the Miami Valley Special Education Regional Resource Center (SERRC), which are jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. Information about these organizations is presented in Notes 17 and 18 to the combined financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. For the Educational Service Center, this consists of an investment trust fund and several agency funds. The investment trust fund is used to account for the activity of the School District's external investment pool and is accounted for using the accrual basis of accounting. The Educational Service Center's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition from other school districts, and grants.

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Excess costs, recorded as intergovernmental receivable, not received in the available period are recognized as deferred revenue.

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The investment trust fund reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable. The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds, other than agency funds and the investment trust fund, legally are required to be budgeted and appropriated. The investment trust fund is classified as an agency fund for budgetary purposes. Because the activity of agency funds is not budgeted, transfers in and transfers out do not equal on the budgetary basis due to a transfer of \$160,226 from the general fund to an agency fund.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Education Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Education Service Center the amount from part (B) that is to be apportioned to their district. Prior to year-end, the Educational Service Center approved estimated resources to reflect actual revenue for the fiscal year.

1. Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Prior to year-end, the Educational Service Center passed a resolution so that appropriations equaled expenditures plus encumbrances. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds and the investment trust fund, consistent with statutory provisions.

2. Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

3. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2000, investments were limited to certificates of deposit, which are reported at cost.

Per Board resolution and under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2000 amounted to \$517,107, which includes \$228,676 assigned from other School District funds. Interest revenue was also credited to the multiple handicapped housing capital projects fund and the investment trust fund for \$3,601 and \$50,840, respectively.

For presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed 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 Educational Service Center maintains a capitalization threshold of two hundred and fifty dollars. The Educational Service Center does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets of the Educational Service Center are not depreciated.

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Martha Holden Jennings
Career Education
School Net Faculty
Distance Learning
Career Enhancement
Entry Year
Excellence in Education
Education Management Information Systems
Head Start
JTPA
School Conflict Management
Western Regional Teacher
Eisenhower Grant
Title VI-B
Title XX
Drug Free Schools
Preschool Grant
Summer Institute
Ohio Department of Health

Capital Projects Funds

School Net
School Net Planning
Interactive Video Distance Learning

Reimbursable Grants

Special Revenue Fund

Ohio Reads

Agency Fund

E-Rate
School Bus Purchase Program

Grants and entitlements received in governmental funds amounted to 80 percent of the governmental fund revenue during the 2000 fiscal year.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables."

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Amounts paid more than sixty days after year end are considered not to have been paid using current available financial resources.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

The Educational Service Center reserves fund balance for amounts that are legally segregated for specific purpose or which are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and inventory of supplies and materials.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. PRIOR PERIOD ADJUSTMENT

Liabilities in the general long-term obligations account group were overstated in the prior year, which caused total liabilities in the general long-term obligations account group to be decreased by \$9,741 from \$344,511 to \$334,770 as of June 30, 1999.

4. ACCOUNTABILITY

At June 30, 2000, the headstart special revenue fund had a deficit fund balance of \$766, which was created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balances 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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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 (GAAP basis).

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
GAAP Basis	\$1,344,148	\$582,447	(\$3,293)
Revenue Accruals	(429,734)	22,833	(397)
Expenditure Accruals	106,237	(65,077)	0
Prepaid Items	3,686	23	(21,114)
Transfers	(160,226)	0	0
Advances	(18,419)	18,419	0
Encumbrances	<u>(544,008)</u>	<u>(670,807)</u>	<u>0</u>
Budget Basis	<u>\$301,684</u>	<u>(\$112,162)</u>	<u>(\$24,804)</u>

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligation, 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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$11,214,827. The bank balance was \$12,404,266. \$200,000 of the bank balance was covered by federal depository insurance. \$12,204,266 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The Educational Service Center did not have any investments at year end.

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents on the combined financial statements and the classification per GASB Statement No. 3 is the same.

7. INVESTMENT POOL

The Educational Service Center serves as a fiscal agent for the Metropolitan Dayton Educational Cooperative Association (MDECA). The Educational Service Center pools the monies of the entity with its own for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of the interest that it earns. The investment pool consists of deposit accounts and certificates of deposit. The certificates of deposit have maturities ranging from July 2000 to December 2000, with interest rates ranging from 5.70% to 6.65%.

Condensed financial information for the investment pool follows:

Statement of Net Assets	
June 30, 2000	
Assets:	
Cash	\$11,214,827
Interest Receivable	126,879
Total Assets	<u>\$11,341,706</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$9,940,434
External Portion	1,401,272
Total Net Assets Held in Trust for Pool Participants	<u>\$11,341,706</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

7. INVESTMENT POOL (Continued)

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2000

Revenues:	
Interest	\$571,548
Expenses:	
Operating Expenses	0
Net Increase in Assets Resulting from Operations	571,548
Capital Transactions	1,189,927
Increase in Net Assets	1,761,475
Net Assets Beginning of Year	9,580,231
Net Assets End of Year	\$11,341,706

8. 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 State 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 the average daily memberships of all of the school district's served by the Educational Service Center by \$36. 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 district's approve or disapprove the additional apportionment.

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's school foundation program, which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School District received \$15,852,311 of basic school foundation support for its general fund.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

8. STATE FUNDING (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the Ohio Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's school Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001. As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

9. RECEIVABLES

Receivables at June 30, 2000, consisted of intergovernmental, accrued interest, and interfund receivable. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
SBH Billing	\$352,377
Multihandicapped Billing	631,183
Pathway	15,530
Intensive Outpatient	2,088
Low Vision	32,679
Occupational Therapy	201,979
Physical Therapy	48,979
Crisis Stabilization	5,054
Home Instruction	28,015
Printing/Miscellaneous	376,264
Work Study	73,455
Mental Health	44,698
Total General Fund	1,812,301
Special Revenue Fund:	
SBH Consultation Services	48,754
Grand Total All Intergovernmental Receivables	\$1,861,055

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

10. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2000 follows:

Asset Category	Balance at 06/30/99	Additions	Deletions	Balance at 06/30/00
Furniture, Fixtures and Equipment	\$2,195,877	\$137,336	\$38,329	\$2,294,884
Vehicles	2,170,311	158,802	123,423	2,205,690
Total General Fixed Assets	<u>\$4,366,188</u>	<u>\$296,138</u>	<u>\$161,752</u>	<u>\$4,500,574</u>

There was no significant construction in progress at June 30, 2000.

11. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Educational Service Center contracts with Indiana Insurance Company for commercial property coverage, GRE Insurance Group for the Metropolitan Dayton Educational Cooperative Association, and Nationwide Insurance for liability and fleet.

Coverage provided by Indiana Insurance is as follows:

Building and contents (\$500 deductible)	\$8,137,120
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Coverage provided by GRE Insurance Group is as follows:

Building and contents (\$250 deductible)	118,500
General liability	
Per occurrence	1,000,000
Total each year	2,000,000
Hired auto and non-owned auto liability, each occurrence	1,000,000

Coverage provided by Nationwide Insurance is as follows:

Automobile liability	1,000,000
Uninsured Motorists	500,000
General liability	
Per occurrence	2,000,000
Total per year	5,000,000

Settled claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

11. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2000, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Incorporated provides administrative, cost control and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$578,821, \$522,155, and \$714,763, respectively; 100 percent has been contributed for fiscal years 2000, 1999, and 1998.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, 45 N. Fourth Street, Columbus, Ohio 43215.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$268,313, \$361,636, and \$429,466, respectively; 100 percent has been contributed for fiscal year 2000, 1999, and 1998.

13. POSTEMPLOYMENT BENEFITS

The Educational Service Center 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 include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly medicare premiums. Benefit provisions and the obligation 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.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2000, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$771,761 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year ended June 30, 2000, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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 2000, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, equaled \$438,424 during the 2000 fiscal year.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

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 at June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-three days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month, fifteen days per year. Sick leave may be accumulated up to a maximum of 285 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days for all employees.

B. Health Care Benefits

The Educational Service Center has elected to provide employee medical/surgical benefits through United HealthCare of Ohio, Inc. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract and the number of days contracted. Dental insurance is provided by the Educational Service Center to most employees through CoreSource. Employees share the cost of the monthly premium with the Board.

C. Life Insurance

The Educational Service Center provides life and accidental death and dismemberment benefits to most employees through Connecticut General Life Insurance Company.

15. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2000 were as follows:

	Restated Amount Outstanding 6/30/99	Additions	Deductions	Amount Outstanding 6/30/00
Intergovernmental Payable	\$21,893	\$23,759	\$21,893	\$23,759
Compensated Absences	312,877	0	53,899	258,978
Total General Long-Term Obligations	\$334,770	\$23,759	\$75,792	\$282,737

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension obligations paid outside the available period and will be paid from the fund from which the person is paid.

16. INTERFUND ACTIVITY

As of June 30, 2000, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$31,841	\$0
Special Revenue Funds:		
Early Intervention	0	7,782
Ohio Reads	0	19,957
Miscellaneous Federal Grants	0	4,102
Total All Funds	\$31,841	\$31,841

17. JOINTLY GOVERNED ORGANIZATIONS

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

The governing board of MDECA consists of one representative from each district plus one representative from the fiscal agent. The Educational Service Center paid MDECA \$21,064 for services provided during the year. Financial information can be obtained from Jerry C. Woodyard, Executive Director of MDECA at 201 Riverside Drive, Dayton, Ohio 45405.

Miami Valley Special Education Regional Resource Center - The Miami Valley Special Education Regional Resource Center (SERRC) is designed to initiate, expand and improve the delivery of special education services to children with disabilities in Clark, Darke, Greene, Miami, Montgomery, and Preble Counties. The Educational Service Center is the fiscal agent for the SERRC. The SERRC is funded with Title VI-B and State Foundation funds as well as annual assessments from the participating school districts based upon average daily membership (ADM). For GAAP reporting purposes, the SERRC is presented as an agency fund.

The governing board consists of superintendents of participating school districts, two parents of children with disabilities, one representative of a chartered non-public school, one representative of a county board of MR/DD, representatives of universities, and optional members who may include student representatives and persons with disabilities.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

18. INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

19. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2000.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	6B-SI-00 6B-SI-99-P	\$963,341 278,133	\$836,110 429,851
Total Special Education Grants to States			<u>1,241,474</u>	<u>1,265,961</u>
Special Education Preschool Grants	84.173	PG-S3-00-P PG-S3-99 PG-S1-98-P PG-S7-00 PG-S7-99	53,100 4,046 11,250	50,017 19,642 507 9,573 3,251
Total Special Education Preschool Grants			<u>68,396</u>	<u>82,990</u>
Total Special Education Cluster			<u>1,309,870</u>	<u>1,348,951</u>
Eisenhower Professional Development State Grants	84.281	MS-S1-99-P MS-S1-00-P	17,970 44,676	33,044 22,523
Total Eisenhower Professional Development State Grants			<u>62,646</u>	<u>55,567</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	DR-S2-00 DR-S2-98-C DR-S2-99-C DR-S2 99	282,686	181,055 9,990 48,248 217,607
Total Safe and Drug Free Schools and Communities - State Grants			<u>282,686</u>	<u>456,900</u>
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	G2-SP-00 G2-S6-99-P G2-S5-99	34,504 50,000	53 963 122,422
Total Goals 2000 - State and Local Education Systemic Improvement Grant			<u>84,504</u>	<u>123,438</u>
Handicapped Youth Transfer Grant	84.158	PF-S1 99	20,000	23,856
<i>Passed through Ohio Department of Health</i>				
Special Education Grants for Infants and Families with Disabilities	84.181	993-B8-00 993-B8-98 993-B8-99	205,215 56,994	183,183 4,515 69,832
Total Special Education Grants for Infants and Families with Disabilities			<u>262,209</u>	<u>257,530</u>
Total United States Department of Education			2,021,915	2,266,242
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	153,159	258,889
Total Federal Financial Assistance			<u>\$2,175,074</u>	<u>\$2,525,131</u>

The notes to the Schedule of Federal Awards Expenditures are an integral part of this Statement.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Montgomery County Educational Service Center
Montgomery County
451 W. Third Street
Dayton, Ohio 45422

To the Board of Education:

We have audited the financial statements of the Montgomery County Educational Service Center, Montgomery County, (the Educational Service Center), as of and for the year ended June 30, 2000, and have issued our report thereon dated March 26, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated March 26, 2001.

Montgomery County Educational Service Center
Montgomery County
Report of Independent Accountants on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

This report is intended for the information and use of the management, 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.

Jim Petro
Auditor of State

March 26, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Montgomery County Educational Service Center
Montgomery County
451 W. Third Street
Dayton, Ohio 45422

To the Board of Education:

Compliance

We have audited the compliance of the Montgomery County Educational Service Center, Montgomery County, (the Educational Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2000. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service 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 Educational Service Center's compliance with those requirements.

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2000.

Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service 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.

**Internal Control Over Compliance
(Continued)**

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

This report is intended for the information and use of the management, 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.

Jim Petro
Auditor of State

March 26, 2001

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2000**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027, Special Education Grants to States and CFDA # 84.173, Special Education Preschool Grants
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2000
(Continued)**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2001**