



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Combined Balance Sheet - All Fund Types and Account Groups .....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types .....	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types .....	8
Statement of Changes in Net Assets - Investment Trust Fund .....	10
Notes to the General Purpose Financial Statements .....	11
Schedule of Federal Awards Receipts and Expenditures .....	31
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	32
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	33
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 .....	35
Schedule of Findings .....	37

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## REPORT OF INDEPENDENT ACCOUNTANTS

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, 2001, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Montgomery County Educational Service Center, Montgomery County, as of June 30, 2001, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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.

We performed our audit to form an opinion on the general-purpose financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for 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. We subjected this information 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

December 17, 2001

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2001**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>Assets and Other Debits</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$5,727,963	\$2,291,779	\$71,016
Receivables:			
Intergovernmental	2,294,220	200,672	
Accrued Interest	123,357		168
Interfund	907,869		
Prepaid Items	3,959		14,076
Inventory of Supplies and Materials	13,431		
Fixed Assets			
<b>Other Debits:</b>			
Amount to be Provided for Retirement of General Long-Term Obligations			
<b>Total Assets and Other Debits</b>	<b>9,070,799</b>	<b>2,492,451</b>	<b>85,260</b>
<b>Liabilities, Fund Equity and Other Credits</b>			
<b>Liabilities:</b>			
Accounts Payable	\$42,402	\$108,439	
Accrued Wages and Benefits Payable	1,741,028	55,109	
Intergovernmental Payable	130,097	10,931	
Interfund Payable		907,869	
Undistributed Monies			
Deferred Revenue	1,219,655	196,103	
Compensated Absences Payable	5,404	349	
<b>Total Liabilities</b>	<b>3,138,586</b>	<b>1,278,800</b>	
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Fund Balance:			
Held in Trust for Pool Participants			
Reserved for Encumbrances	358,649	888,325	
Reserved for Inventory of Supplies and Materials	13,431		
Unreserved, Undesignated	5,560,133	325,326	85,260
<b>Total Fund Equity and Other Credits</b>	<b>5,932,213</b>	<b>1,213,651</b>	<b>85,260</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$9,070,799</b>	<b>\$2,492,451</b>	<b>\$85,260</b>

*See Accompanying Notes to the General Purpose Financial Statements*



Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	Trust and Agency	General Fixed Assets	
	\$3,976,198		\$12,066,956
			2,494,892
	6,394		129,919
			907,869
			18,035
			13,431
		\$4,696,133	4,696,133
		\$337,839	337,839
	<u>3,982,592</u>	<u>4,696,133</u>	<u>20,665,074</u>
	\$4,070		\$154,911
			1,796,137
	700	26,324	168,052
			907,869
	1,573,679		1,573,679
			1,415,758
		311,515	317,268
	<u>1,578,449</u>	<u>337,839</u>	<u>6,333,674</u>
		4,696,133	4,696,133
	2,404,143		2,404,143
			1,246,974
			13,431
			5,970,719
	<u>2,404,143</u>	<u>4,696,133</u>	<u>14,331,400</u>
	<u>\$3,982,592</u>	<u>\$4,696,133</u>	<u>\$20,665,074</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, 2001**

	<b>General</b>	<b>Speical Revenue</b>	<b>Capital Projects</b>	<b>Total (Memorandum Only)</b>
<b>Revenues:</b>				
Intergovernmental	\$3,751,382	\$1,743,565		\$5,494,947
Interest	650,740		\$3,520	654,260
Tuition and Fees	4,551,134	1,030,005		5,581,139
Charges for Services	12,589,787	320,755		12,910,542
Total Revenues	21,543,043	3,094,325	3,520	24,640,888
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular		59,295		59,295
Special	8,210,177	1,342,698		9,552,875
Support Services:				
Pupils	3,610,975	496,906		4,107,881
Instructional Staff	4,889,251	2,526,220	200	7,415,671
Board of Education	43,086			43,086
Administration	1,513,247	67,130		1,580,377
Fiscal	276,036	43,144		319,180
Business	203,169	14,713		217,882
Operation and Maintenance of Plant	66,457	5,201	7,038	78,696
Pupil Transportation	408,646	259		408,905
Central	763,419	14,961		778,380
Operation of Non-Instructional Services		681		681
Total Expenditures	19,984,463	4,571,208	7,238	24,562,909
Excess of Revenues Over (Under) Expenditures	1,558,580	(1,476,883)	(3,718)	77,979
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	145,309	414,841		560,150
Operating Transfers Out	(414,588)	(145,562)		(560,150)
Total Other Financing Sources (Uses)	(269,279)	269,279		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,289,301	(1,207,604)	(3,718)	77,979
Fund Balances at Beginning of Year - Restated (Note 3)	4,638,049	2,421,255	88,978	7,148,282
Increase in Reserve for Inventory	4,863			4,863
Fund Balances at End of Year	\$5,932,213	\$1,213,651	\$85,260	\$7,231,124

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, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Intergovernmental	\$3,774,255	\$3,774,255		\$1,852,926	\$1,852,926	
Interest	638,050	638,050				
Tuition and Fees	4,518,498	4,518,498		1,026,614	1,026,614	
Charges for Services	12,589,787	12,589,787		320,755	320,755	
Total Revenues	<u>21,520,590</u>	<u>21,520,590</u>		<u>3,200,295</u>	<u>3,200,295</u>	
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular				73,434	73,434	
Special	8,468,698	8,468,698		1,342,698	1,342,698	
Support Services:						
Pupils	3,623,307	3,623,307		607,251	607,251	
Instructional Staff	4,991,327	4,991,327		3,450,385	3,450,385	
Board of Education	43,096	43,096				
Administration	1,524,224	1,524,224		72,903	72,903	
Fiscal	293,608	293,608		43,144	43,144	
Business	222,631	222,631		14,757	14,757	
Operation and Maintenance of Plant	113,962	113,962		5,461	5,461	
Pupil Transportation	168,620	168,620		259	259	
Central	788,726	788,726		16,723	16,723	
Operation of Non-Instructional Services				681	681	
Total Expenditures	<u>20,238,199</u>	<u>20,238,199</u>		<u>5,627,696</u>	<u>5,627,696</u>	
Excess of Revenues Over (Under) Expenditures	<u>1,282,391</u>	<u>1,282,391</u>		<u>(2,427,401)</u>	<u>(2,427,401)</u>	
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In	145,309	145,309		414,841	414,841	
Operating Transfers Out	(654,614)	(654,614)		(145,562)	(145,562)	
Advances In	31,841	31,841		828,745	828,745	
Advances Out	(828,745)	(828,745)		(31,841)	(31,841)	
Refund of Prior Year Receipts				(52,246)	(52,246)	
Total Other Financing Sources (Uses)	<u>(1,306,209)</u>	<u>(1,306,209)</u>		<u>1,013,937</u>	<u>1,013,937</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(23,818)</u>	<u>(23,818)</u>		<u>(1,413,464)</u>	<u>(1,413,464)</u>	
Fund Balances at Beginning of Year	4,852,526	4,852,526		1,969,011	1,969,011	
Prior Year Encumbrances Appropriated	544,008	544,008		661,757	661,757	
Fund Balances at End of Year	<u>\$5,372,716</u>	<u>\$5,372,716</u>	<u>\$0</u>	<u>\$1,217,304</u>	<u>\$1,217,304</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)
			\$5,627,181	\$5,627,181	
\$4,081	\$4,081		642,131	642,131	
			5,545,112	5,545,112	
			12,910,542	12,910,542	
4,081	4,081		24,724,966	24,724,966	
			73,434	73,434	
			9,811,396	9,811,396	
			4,230,558	4,230,558	
200	200		8,441,912	8,441,912	
			43,096	43,096	
			1,597,127	1,597,127	
			336,752	336,752	
			237,388	237,388	
			119,423	119,423	
			168,879	168,879	
			805,449	805,449	
			681	681	
200	200		25,866,095	25,866,095	
3,881	3,881		(1,141,129)	(1,141,129)	
			560,150	560,150	
			(800,176)	(800,176)	
			860,586	860,586	
			(860,586)	(860,586)	
			(52,246)	(52,246)	
			(292,272)	(292,272)	
3,881	3,881		(1,433,401)	(1,433,401)	
67,135	67,135		6,888,672	6,888,672	
			1,205,765	1,205,765	
\$71,016	\$71,016	\$0	\$6,661,036	\$6,661,036	\$0

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**STATEMENT OF CHANGES IN NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<b>Revenues:</b>	
Interest	<u>\$87,288</u>
<b>Expenses:</b>	
Operating	<u>                    </u>
Net Increase in Assets Resulting from Operations	87,288
Capital Transactions	<u>915,583</u>
Increase in Assets	1,002,871
Net Assets Beginning of Year	<u>1,401,272</u>
Net Assets at End of Year	<u><u>\$2,404,143</u></u>

*See Accompanying Notes to the General Purpose Financial Statements.*

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**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 220 noncertified and 252 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. 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 are 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 general purpose 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.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(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 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.



**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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. The full accrual basis of accounting is followed for the investment trust fund.

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 Educational Service Center, available means expected to be received within sixty days of year-end.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

**C. Budgetary Data**

The Educational Service Center 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 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, are 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 \$240,026 from the general fund to an agency fund.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 enacted by the Educational Service Center at the fund, function, and object level of expenditures. 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. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances not exceed the appropriation totals at the legal level of control.

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 Board 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 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.

**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. 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.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. Several special revenue funds had expended amounts greater than its share of pooled cash and cash equivalents. These funds had negative cash balances at fiscal year end that were eliminated by a short-term loan from the general fund.

During fiscal year 2001, 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 2001 amounted to \$650,740, which includes \$290,198 assigned from other Educational Service Center funds. Interest revenue was also credited to the multiple handicapped housing capital projects fund and the investment trust fund for \$3,520 and \$87,288, 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.

**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. Interfund Assets**

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2001, 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.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. 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.

Assets of the Educational Service Center are not depreciated.

**I. 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.

**J. 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. Payments made more than sixty days after year end are considered not to have been paid using current available financial resources.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. 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.

**L. 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.

**M. Estimates**

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

**N. 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. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

For fiscal year 2001, the Educational Service Center has implemented GASB Statements No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." The effect of the implementation of these statements on opening fund balances follows:

	<b>Governmental Fund Type</b>
	<b>Special Revenue</b>
Fund Balance at June 30, 2000	\$2,364,071
Restatement:	
Intergovernmental Receivable	57,184
Restated Amount at July 1, 2000	\$2,421,255

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**4. ACCOUNTABILITY**

At June 30, 2001, the Scholarship, Arts & Culture, Headstart, Martha Holdens Jennings, Preschool, and Miscellaneous Federal Grants Special Revenue Funds had deficit fund balances of \$303,116, \$75,296, \$33, \$3,827, \$15,345, and \$7,043, respectively. 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:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
- d. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes 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	\$1,289,301	(\$1,207,604)	(\$3,718)
Revenue Accruals	(21,636)	105,970	561
Expenditure Accruals	175,859	(113,383)	(7,038)
Prepaid Items	3,959	0	14,076
Transfers	(240,026)	0	0
Unrecorded Cash	(817)	0	0
Advances	(796,904)	796,904	0
Encumbrances	(433,554)	(995,351)	0
Budget Basis	<u>(\$23,818)</u>	<u>(\$1,413,464)</u>	<u>\$3,881</u>

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**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 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.

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).



**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

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 \$12,066,956. The bank balance was \$13,761,631. \$200,000 of the bank balance was covered by federal depository insurance. \$13,561,631 was uninsured and uncollateralized. Although 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.

**Investments:** The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center'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 Educational Service Center'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 Educational Service Center's name. The Educational Service Center did not have any investments at year end.

**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 2001 to December 2001, with interest rates ranging from 3.55% to 6.90%.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**7. INVESTMENT POOL (Continued)**

Condensed financial information for the investment pool follows:

**Statement of Net Assets  
June 30, 2001**

Assets:	
Cash	\$12,066,956
Interest Receivable	129,919
Total Assets	\$12,196,875
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$9,792,732
External Portion	2,404,143
Total Net Assets Held in Trust for Pool Participants	\$12,196,875

**Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2001**

Revenues:	
Interest	\$741,548
Expenses:	
Operating Expenses	0
Net Increase in Assets Resulting from Operations	741,548
Capital Transactions	113,621
Increase in Net Assets	855,169
Net Assets Beginning of Year	11,341,706
Net Assets End of Year	\$12,196,875

**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. By agreement, the District receives an additional \$5.50 per pupil. 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 \$37. This amount is provided from State resources.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**8. STATE FUNDING (Continued)**

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.

**9. RECEIVABLES**

Receivables at June 30, 2001, consisted of intergovernmental, accrued interest, and interfund receivable. All receivables are considered collectible in full.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amounts</b>
General Fund:	
SBH Billing	\$403,720
Multihandicapped Billing	529,174
Hearing	3,902
Intensive Outpatient	10,545
Low Vision	68,437
Occupational Therapy	236,586
Physical Therapy	60,994
Crisis Stabilization	7,369
Home Instruction	81,211
Printing/Miscellaneous	531
Work Study	101,480
Miscellaneous	351,973
Mental Health	<u>438,298</u>
Total General Fund	2,294,220
Special Revenue Fund:	
SBH Consultation Services	<u>200,672</u>
Total All Intergovernmental Receivables	<u><u>\$2,494,892</u></u>

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**10. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 06/30/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/01</u>
Furniture, Fixtures and Equipment	\$2,294,884	\$595,357	\$386,113	\$2,504,128
Vehicles	2,205,690	289,625	303,310	2,192,005
Total General Fixed Assets	<u>\$4,500,574</u>	<u>\$884,982</u>	<u>\$689,423</u>	<u>\$4,696,133</u>

There was no significant construction in progress at June 30, 2001.

**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)	\$7,616,400
Computers(\$250 deductible)	55,000

Coverage provided by GRE Insurance Group is as follows:

Building and contents (\$250 deductible)	108,700
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	2,000,000
Uninsured Motorists	2,000,000
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.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**11. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2001, 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 Integrated Comp, 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.

For the fiscal year ended June 30, 2001, plan members are required to contribute 9.3 percent of their annual covered salary. The Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. 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, 2001, 2000, and 1999 were \$954,240, \$578,821, and \$522,155, respectively; 100 percent has been contributed for fiscal years 2001, 2000, and 1999.

**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 43215-3634.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(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 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was 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, 2001, 2000, and 1999 were \$208,020, \$268,313, and \$361,636, respectively; 100 percent has been contributed for fiscal year 2001, 2000, and 1999.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to the School Employees Retirement System.

**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. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$452,009 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**13. POSTEMPLOYMENT BENEFITS (Continued)**

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, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 1.3 percent for fiscal year 2000. 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 2001, 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 \$511,703 during the 2001 fiscal year.

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, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 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.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**15. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2001 were as follows:

	<b>Amount Outstanding 6/30/00</b>	<b>Additions</b>	<b>Deductions</b>	<b>Amount Outstanding 6/30/01</b>
Intergovernmental Payable	\$23,759	\$26,324	\$23,759	\$26,324
Compensated Absences	258,978	52,537	0	311,515
Total General Long-Term Obligations	<u>\$282,737</u>	<u>\$78,861</u>	<u>\$23,759</u>	<u>\$337,839</u>

Intergovernmental payable and 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.

**16. INTERFUND ACTIVITY**

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

<b>Fund Type/Fund</b>	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General Fund	\$907,869	\$0
Special Revenue Funds:		
Arts & Culture	0	541,161
Early Intervention	0	1,050
Rotary Internal Service	0	98,994
Mentoring	0	136,660
Martha Holden Jennings	0	3,827
Miscellaneous State Grants	0	43,762
Preschool Grant	0	11,307
Miscellaneous Federal Grants	0	71,108
Total All Funds	<u>\$907,869</u>	<u>\$907,869</u>

**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. MDECA is an association of public school districts within the boundaries of Darke, Miami, and Montgomery Counties and the Cities of Dayton, Troy, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.



**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**17. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Educational Service Center paid MDECA \$30,979 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.

**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, 2001.

**B. Litigation**

The Educational Service Center is party to legal proceedings. The Educational Service Center is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Educational Service Center.

**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**20. SUBSEQUENT EVENT**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 17, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2001**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-SI-00	\$ 300,413	\$ 395,075
		6B-SI-01	<u>1,154,107</u>	<u>802,704</u>
Total Special Education Grants to States			1,454,520	1,197,779
Special Education Preschool Grants	84.173	PG-S3-2-00	17,900	20,983
		PG-S3-2-01	44,730	53,973
		PG-S7-00		1,677
		PG-S7-01	<u>11,250</u>	<u>9,454</u>
Total Special Education Preschool Grants			73,880	86,087
Total Special Education Cluster			1,528,400	1,283,866
Eisenhower Professional Development State Grants	84.281	MS-SI-00-P		13,044
Safe and Drug Free Schools and Communities - State Grants	84.186	DR-S2-00	31,056	127,186
		DR-S2-99-C		5,882
		DR-S2-01	<u>279,854</u>	<u>191,088</u>
Total Safe and Drug Free Schools and Communities - State Grants			310,910	324,156
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276			97
		GS-S5-99		<u>7,106</u>
				16,296
Passed Through Ohio Department of Health				
Special Education Grants for Infants and Families with Disabilities	84.181	993\B8\00	68,405	79,217
		993\B8\01	<u>242,035</u>	<u>256,133</u>
Total Special Education Grants for Infants and Families with Disabilities			310,440	335,350
Total United States Department of Education			<u>2,149,750</u>	<u>1,972,712</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	<u>219,763</u>	<u>161,187</u>
<b>Total Federal Financial Assistance</b>			<b><u>\$ 2,369,513</u></b>	<b><u>\$ 2,133,899</u></b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - MATCHING REQUIREMENTS**

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

**NOTE C - SUBRECIPIENTS**

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



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

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, 2001, and have issued our report thereon dated December 17, 2001. 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.

**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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated December 17, 2001.

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

December 17, 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**

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 programs for the year ended June 30, 2001. The Educational Service Center's major federal programs are 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 each of its major federal programs 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 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 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 Montgomery County Educational Service 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, 2001.

**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

December 17, 2001



**EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2001**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Safe and Drug Free Schools and Communities - State Grants: CFDA # 84.186 Special Education Grants for Infants/Families with Disabilities: CFDA # 84.181
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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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  
JANUARY 10, 2002**