



**Auditor of State  
Betty Montgomery**



EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Montgomery County Educational Service Center (the Center) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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 as of June 30, 2002, 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 March 24, 2003 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

March 24, 2003

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	<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	\$5,797,147	\$1,886,935	\$98,723
Receivables:			
Accounts	1,493		
Intergovernmental	2,408,597	392,155	
Accrued Interest	64,097		931
Interfund	1,331,786		
Prepaid Items	4,353		7,038
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>9,607,473</b>	<b>2,279,090</b>	<b>106,692</b>
<b>Liabilities, Fund Equity and Other Credits</b>			
<b>Liabilities:</b>			
Accounts Payable	152,024	90,374	
Accrued Wages and Benefits Payable	1,983,434	68,951	
Intergovernmental Payable	64,797	6,434	
Interfund Payable		1,272,302	
Undistributed Monies			
Notes Payable	550,000		
Deferred Revenue	967,579	245,449	
Compensated Absences Payable	15,828	2,192	
<b>Total Liabilities</b>	<b>3,733,662</b>	<b>1,685,702</b>	
<b>Fund Equity and Other Credits</b>			
Investment in General Fixed Assets			
Fund Balance:			
Held in Trust for Pool Participants			
Reserved for Encumbrances	293,055	216,000	
Unreserved, Undesignated	5,580,756	377,388	106,692
<b>Total Fund Equity and Other Credits</b>	<b>5,873,811</b>	<b>593,388</b>	<b>106,692</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$9,607,473</b>	<b>\$2,279,090</b>	<b>\$106,692</b>

*See accompanying notes to the general purpose financial statements.*



Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	Trust and Agency	General Fixed Assets	
	\$4,109,790		\$11,892,595
			1,493
			2,800,752
	11,794		76,822
			1,331,786
			11,391
	6,258,796		6,258,796
		410,570	410,570
	<u>4,121,584</u>	<u>6,258,796</u>	<u>410,570</u>
			<u>22,784,205</u>
	68,106		310,504
			2,052,385
	14,019	25,447	110,697
	59,484		1,331,786
	1,287,352		1,287,352
			550,000
			1,213,028
		385,123	403,143
	<u>1,428,961</u>	<u>410,570</u>	<u>7,258,895</u>
		6,258,796	6,258,796
	2,692,623		2,692,623
			509,055
			6,064,836
	<u>2,692,623</u>	<u>6,258,796</u>	<u>15,525,310</u>
	<u>\$4,121,584</u>	<u>\$6,258,796</u>	<u>\$410,570</u>
			<u>\$22,784,205</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>Revenues:</b>			
Intergovernmental	\$4,573,875	\$2,585,282	\$26,100
Interest	336,171		2,370
Tuition and Fees	2,573,124		
Gifts and Donations	350,000	2,614	
Charges for Services	14,886,753	1,629,450	
Miscellaneous	1,294,223	730,656	
Total Revenues	<u>24,014,146</u>	<u>4,948,002</u>	<u>28,470</u>
<b>Expenditures</b>			
Current:			
Instruction			
Regular		76,877	
Special	8,952,971	1,162,503	
Support Services			
Pupils	3,919,171	920,912	
Instructional Staff	5,628,919	3,897,893	
Board of Education	47,157		
Administration	1,732,507	54,686	
Fiscal	273,375	27,663	
Business	328,061	18,526	
Operation and Maintenance of Plant	19,540	212	7,038
Pupil Transportation	190,478		
Central	857,447	22,732	
Operation of Non-Instructional Services	1,495,752		
Total Expenditures	<u>23,445,378</u>	<u>6,182,004</u>	<u>7,038</u>
Excess of Revenues Over (Under) Expenditures	<u>568,768</u>	<u>(1,234,002)</u>	<u>21,432</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	242,084	855,823	
Operating Transfers Out	(855,823)	(242,084)	
Total Other Financing Sources (Uses)	<u>(613,739)</u>	<u>613,739</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(44,971)	(620,263)	21,432
Fund Balances at Beginning of Year	5,932,213	1,213,651	85,260
Decrease in Reserve for Inventory	(13,431)		
Fund Balances at End of Year	<u>\$5,873,811</u>	<u>\$593,388</u>	<u>\$106,692</u>

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, 2002**

	<b>General Fund</b>		<b>Variance Favorable (Unfavorable)</b>
	<b>Revised Budget</b>	<b>Actual</b>	
<b>Revenues:</b>			
Intergovernmental	\$4,573,874	\$4,573,874	
Interest	395,166	395,166	
Tuition and Fees	3,647,689	3,647,689	
Charges for Services	13,444,243	13,444,243	
Gifts and Donations			
Miscellaneous	1,294,223	1,294,223	
Total Revenues	<u>23,355,195</u>	<u>23,355,195</u>	
<b>Expenditures</b>			
Current:			
Instruction			
Regular			
Special	8,959,078	8,959,078	
Support Services			
Pupils	3,940,298	3,940,298	
Instructional Staff	5,648,417	5,648,417	
Board of Education	46,311	46,311	
Administration	1,726,068	1,726,068	
Fiscal	282,816	282,816	
Business	332,660	332,660	
Operation and Maintenance of Plant	16,687	16,687	
Pupil Transportation	64,378	64,378	
Central	878,387	878,387	
Operation of Non-Instructional Services			
	1,155,734	1,155,734	
Total Expenditures	<u>23,050,834</u>	<u>23,050,834</u>	
Excess of Revenues Over (Under)			
Expenditures	<u>304,361</u>	<u>304,361</u>	
Other Financing Sources (Uses)			
Proceeds from Notes	550,000	550,000	
Operating Transfers In	242,084	242,084	
Operating Transfers Out	(902,802)	(902,802)	
Advances In	319,119	319,119	
Advances Out	(822,157)	(822,157)	
Refund of Prior Year Receipts			
Total Other Financing Sources (Uses)	<u>(613,756)</u>	<u>(613,756)</u>	
Excess of Revenues and Other Financing Sources Over (Under)			
Expenditures and Other Financing Uses	(309,395)	(309,395)	
Fund Balances at Beginning of Year	5,372,746	5,372,746	
Prior Year Encumbrances Appropriated	<u>433,554</u>	<u>433,554</u>	
Fund Balances at End of Year	<u><u>\$5,496,905</u></u>	<u><u>\$5,496,905</u></u>	

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Capital Projects Funds			Total (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$2,437,619	\$2,437,619		\$26,100	\$26,100		\$7,037,593	\$7,037,593	
			1,762	1,762		396,928	396,928	
						3,647,689	3,647,689	
1,632,197	1,632,197					15,076,440	15,076,440	
2,614	2,614					2,614	2,614	
735,224	735,224					2,029,447	2,029,447	
<u>4,807,654</u>	<u>4,807,654</u>		<u>27,862</u>	<u>27,862</u>		<u>28,190,711</u>	<u>28,190,711</u>	
79,824	79,824					79,824	79,824	
1,162,503	1,162,503					10,121,581	10,121,581	
997,514	997,514					4,937,812	4,937,812	
4,119,829	4,119,829					9,768,246	9,768,246	
						46,311	46,311	
59,273	59,273					1,785,341	1,785,341	
27,663	27,663					310,479	310,479	
20,053	20,053					352,713	352,713	
777	777					17,464	17,464	
						64,378	64,378	
20,156	20,156					898,543	898,543	
						1,155,734	1,155,734	
<u>6,487,592</u>	<u>6,487,592</u>					<u>29,538,426</u>	<u>29,538,426</u>	
<u>(1,679,938)</u>	<u>(1,679,938)</u>		<u>27,862</u>	<u>27,862</u>		<u>(1,347,715)</u>	<u>(1,347,715)</u>	
776,702	776,702					550,000	550,000	
(242,084)	(242,084)					1,018,786	1,018,786	
762,674	762,674					(1,144,886)	(1,144,886)	
(319,119)	(319,119)					1,081,793	1,081,793	
(2,699)	(2,699)					(1,141,276)	(1,141,276)	
<u>975,474</u>	<u>975,474</u>					<u>(2,699)</u>	<u>(2,699)</u>	
						<u>361,718</u>	<u>361,718</u>	
(704,464)	(704,464)		27,862	27,862		(985,997)	(985,997)	
1,217,304	1,217,304		71,016	71,016		6,661,066	6,661,066	
995,351	995,351					1,428,905	1,428,905	
<u>\$1,508,191</u>	<u>\$1,508,191</u>	<u>\$0</u>	<u>\$98,878</u>	<u>\$98,878</u>	<u>\$0</u>	<u>\$7,103,974</u>	<u>\$7,103,974</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, 2002**

<b>Revenues:</b>	
Interest	\$73,658
<b>Expenses:</b>	
Operating	<u>0</u>
Net Increase in Assets Resulting from Operations	73,658
Capital Transactions	<u>214,822</u>
Increase in Assets	288,480
Net Assets Beginning of Year	<u>2,404,143</u>
Net Assets End of Year	<u><u>\$2,692,623</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, 2002**

**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 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 237 non-certified and 214 certificated full-time teaching personnel that provide services to the local school districts.

The 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 16 and 17 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(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.



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(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 \$126,100 and an advance of \$59,483 from the general fund to an agency fund.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(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 2002, investments were limited to certificates of deposit, which are reported at fair value.

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 2002 amounted to \$336,171. Interest revenue was also credited to the multiple handicapped housing capital projects fund and the investment trust fund for \$2,370 and \$73,658, 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. Interfund Assets/Liabilities**

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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.

Assets of the Educational Service Center are not depreciated.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**H. 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 twenty 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.

**I. 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 (SERS surcharge) 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.

**J. 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 non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**K. 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 investment in trust for pool participants.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**L. 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.

**M. 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. 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:

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**3. BUDGETARY BASIS OF ACCOUNTING (Continued)**

**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	(\$44,971)	(\$620,263)	\$21,432
Revenue and Other Sources Accruals	560,169	543,205	(608)
Expenditure and Other Uses Accruals	(446,274)	(327,787)	7,038
Encumbrances	(378,319)	(299,619)	0
Budget Basis	<u>(\$309,395)</u>	<u>(\$704,464)</u>	<u>\$27,862</u>

**4. 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;

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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 \$11,892,595. The bank balance was \$13,294,407. \$300,000 of the bank balance was covered by federal depository insurance. \$12,994,407 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. The Educational Service Center did not have any investments at year end.

**5. 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 2002 to June 2003, with interest rates ranging from 1.60% to 2.75%.



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**5. INVESTMENT POOL (Continued)**

Condensed financial information for the investment pool follows:

**Statement of Net Assets  
June 30, 2002**

Assets:	
Cash	\$11,892,595
Interest Receivable	76,822
Total Assets	\$11,969,417
Net Assets Held in Trust for Pool Participants	
External Portion	\$2,692,623
Internal Portion	9,276,794
Total Net Assets Held in Trust for Pool Participants	\$11,969,417

**Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2002**

Revenues:	
Interest	\$412,199
Expenses:	
Operating Expenses	0
Net Increase in Assets Resulting from Operations	412,199
Capital Transactions	(639,657)
Decrease in Net Assets	(227,458)
Net Assets Beginning of Year	12,196,875
Net Assets End of Year	\$11,969,417

**6. 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**6. 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.

**7. RECEIVABLES**

Receivables at June 30, 2002, consisted of intergovernmental, accrued interest, and interfund receivable. All receivables are considered collectible in full.

A summary of the intergovernmental receivables follows:

	<b>Amounts</b>
General Fund:	
Assessment	\$2,904
DH/SLD	16,314
Hearing	4,505
Home Instruction	22,952
Intensive Outpatient	38,762
Low Vision	73,292
Mental Health	147,259
Miscellaneous	316,066
Multihandicapped Billing	526,302
Occupational – Therapy	135,601
Pathways	73,231
Physical Therapy	101,437
Post	35,006
Printing/Miscellaneous	7,704
SBH Billing	179,421
Severe Behavioral	573,906
SLH/SLP	92,294
Speech	25,763
Work Study	35,878
Total General Fund	2,408,597
Special Revenue Fund:	
SBH Consultation Services	392,155
Total All Intergovernmental Receivables	\$2,800,752

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**8. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<b>Asset Category</b>	<b>Balance 6/30/2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2002</b>
Land		182,098		182,098
Furnitures, Fixtures, and Equipment	2,504,128	186,504	45,919	2,644,713
Vehicles	2,192,005		27,922	2,164,083
Buildings		<u>1,267,902</u>		<u>1,267,902</u>
Total General fixed Assets	<u>4,696,133</u>	<u>1,636,504</u>	<u>73,841</u>	<u>6,258,796</u>

There was no significant construction in progress at June 30, 2002.

**9. 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 Nationwide Insurance Company for commercial property, liability and fleet coverage.

Coverage provided by Nationwide Insurance is as follows:

Building and contents (\$500 deductible)	\$7,921,000
Computers(\$250 deductible)	55,000
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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). 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.

**10. 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, 2002, 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 2001, the portion used to fund pension obligations was 9.5 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, 2002, 2001, and 2000 were \$970,913, \$954,240, and \$578,821, respectively; 100 percent has been contributed for fiscal years 2002, 2001, and 2000.

**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, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**10. 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 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, 2002, 2001, and 2000 were \$277,497, \$208,020, and \$268,313, respectively; 100 percent has been contributed for fiscal year 2002, 2001, and 2000.

**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, 2002, 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.

**11. 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, 2002, 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 \$459,907 for fiscal year 2002.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**11. POSTEMPLOYMENT BENEFITS (Continued)**

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease from 1.26 percent for fiscal year 2001. 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 2002, 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 \$461,574 during the 2002 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, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**12. 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**13. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

	<b>Amount Outstanding 6/30/01</b>	<b>Additions</b>	<b>Deductions</b>	<b>Amount Outstanding 6/30/02</b>
Intergovernmental Payable	\$26,324	\$25,447	\$26,324	\$25,447
Compensated Absences	311,515	73,608	0	385,123
<b>Total General Long-Term Obligations</b>	<b>\$337,839</b>	<b>\$99,055</b>	<b>\$26,324</b>	<b>\$410,570</b>

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.

**14. SHORT-TERM DEBT**

During fiscal year 2002, the Educational Service Center received a \$550,000 loan from National City Bank in connection with a lease-purchase financing agreement. The loan was scheduled to be paid off by June 30, 2003, with the option of four one-year renewal periods. As part of the lease-financing agreement, National City Bank was to sublease the property back to the Education Service Center which was required to make the principal and interest payments to National City Bank according to the loan repayment schedule to payoff the loan. The Education Service Center chose not to exercise the renewal option and paid off the loan early by retiring it on February 28, 2003.

	<b>Amount Outstanding 6/30/01</b>	<b>Additions</b>	<b>Deductions</b>	<b>Amount Outstanding 6/30/02</b>
Notes Payable	\$0	550,000	0	\$550,000

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**15. INTERFUND ACTIVITY**

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$1,331,786	\$0
Special Revenue Funds:		
Scholarship		493,290
Drug Free Schools		10,930
Distance Learning	0	1,240
Early Intervention	0	
Rotary Internal Service	0	151,907
Mentoring	0	100,269
School Net	0	3,827
Miscellaneous State Grants	0	107,671
Preschool Grant	0	8,696
Miscellaneous Federal Grants	0	394,472
Agency Fund		
Early start	0	59,484
Total All Funds	<u>\$1,331,786</u>	<u>\$1,331,786</u>

**16. 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.

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 \$31,568 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.



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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**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.

**17. 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.

**18. CONTINGENCY**

**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, 2002.

**19. SUBSEQUENT EVENT**

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

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

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	6B-SI-2001-P 6B-SI-2002-P	\$125,220 936,096	\$476,622 872,890
Total Special Education Grants to States			<u>1,061,316</u>	<u>1,349,512</u>
Special Education Preschool Grants	84.173	PGS3-2001-P PGS3-2002-P PGS7-2001 PGS7-2002	29,625 53,087 (989) 11,250	29,759 61,731 807 8,079
Total Special Education Preschool Grants			<u>92,973</u>	<u>100,376</u>
Total Special Education Cluster			<u>1,154,289</u>	<u>1,449,888</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	DRS2-2000 DRS2-2001 DRS2-2002	29,601 228,180	3,520 120,505 182,904
Total Safe and Drug Free Schools and Communities - State Grants			<u>257,781</u>	<u>306,929</u>
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	G2SP-2001 G2SP-2000	1,830	11,176
Total Goals 2000 - State and Local Education Systemic Improvement Grant			<u>1,830</u>	<u>11,176</u>
<i>Passed Through Ohio Department of Health</i>				
Special Education Grants for Infants and Families with Disabilities	84.181	993B8\01	103,185	135,431
Total United States Department of Education			<u>1,517,085</u>	<u>1,903,424</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medicaid Assistance Program	93.778	N/A	292,345	152,250
<b>Total Federal Financial Assistance</b>			<u>\$1,809,430</u>	<u>\$2,055,674</u>

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, 2002**

**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 these 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 United States Department of Health and Human Services to other governments. As discussed in Note A, the Educational Service Center records expenditures of federal awards to sub-recipients when paid in cash. The sub-recipients agencies have certain compliance responsibilities related to administering these federal programs. Under Federal OMB Circular A-133, the Educational Service Center is responsible for monitoring sub-recipients 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.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of Montgomery County Educational Service Center (the Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 24, 2003. 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 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 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 does not require inclusion in this report, that we have reported to management of the Center in a separate letter dated March 24, 2003.

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

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

**Betty Montgomery**  
Auditor of State

March 24, 2003



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Montgomery County Educational Service Center (the Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 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, 2002.

#### 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.

**Internal Control Over Compliance  
(Continued)**

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.

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. However, we noted a matter involving the internal control over federal compliance 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 24, 2003.

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



**Betty Montgomery**  
Auditor of State

March 24, 2003



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2002**

**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>	Special Education Cluster: CFDA #'s 84.027 and 84.173
<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.





**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
MAY 8, 2003**