



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

STATE OF OHIO



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## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Montgomery County Educational Service Center, Montgomery County, (the Educational Service Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Montgomery County, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2000 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.

**Jim Petro**  
Auditor of State

January 21, 2000

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**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999**

|  | <u>Governmental Fund Types</u> |                               |                             |
|--|--------------------------------|-------------------------------|-----------------------------|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u>    | <u>Capital<br/>Projects</u> |
| <b>Assets and Other Debits</b>   |                                |                               |                             |
| <b>Assets:</b>   |                                |                               |                             |
| Equity in Pooled Cash and<br>Cash Equivalents                            | \$4,551,817                    | \$2,072,123                   | \$91,939                    |
| Receivables:   |                                |                               |                             |
| Intergovernmental  | 1,027,139                      | 14,004                        |                             |
| Accrued Interest   | 71,424                         |                               | 332                         |
| Interfund  | 13,422                         |                               |                             |
| Prepaid Items  | 6,538                          | 23                            |                             |
| Inventory of Supplies and Materials                                      | 12,142                         |                               |                             |
| Fixed Assets   |                                |                               |                             |
| <b>Other Debits:</b>   |                                |                               |                             |
| Amount to be Provided for Retirement<br>of General Long-Term Obligations |                                |                               |                             |
| <b>Total Assets and Other Debits</b>                                     | <u><u>\$5,682,482</u></u>      | <u><u>\$2,086,150</u></u>     | <u><u>\$92,271</u></u>      |
| <br>   |                                |                               |                             |
| <b>Liabilities, Fund Equity and Other Credits</b>                        |                                |                               |                             |
| <b>Liabilities:</b>  |                                |                               |                             |
| Accounts Payable   | \$27,167                       | \$206,535                     |                             |
| Accrued Wages Payable  | 1,904,170                      | 51,274                        |                             |
| Intergovernmental Payable  | 106,040                        | 19,292                        |                             |
| Interfund Payable  |                                | 13,422                        |                             |
| Undistributed Monies   |                                |                               |                             |
| Deferred Revenue   | 303,553                        | 14,004                        |                             |
| Compensated Absences Payable   | 44,079                         |                               |                             |
| Capital Leases Payable   |                                |                               |                             |
| <b>Total Liabilities</b>   | <u><u>2,385,009</u></u>        | <u><u>304,527</u></u>         | <u><u>0</u></u>             |
| <br>   |                                |                               |                             |
| <b>Fund Equity and Other Credits:</b>                                    |                                |                               |                             |
| Investment in General Fixed Assets                                       |                                |                               |                             |
| Net Assets Held in Trust for Pool Participants                           |                                |                               |                             |
| Fund Balance:  |                                |                               |                             |
| Reserved for Encumbrances  | 473,994                        | 390,515                       |                             |
| Reserved for Inventory   | 12,142                         |                               |                             |
| Unreserved, Undesignated   | 2,811,337                      | 1,391,108                     | 92,271                      |
| <b>Total Fund Equity and Other Credits</b>                               | <u><u>3,297,473</u></u>        | <u><u>1,781,623</u></u>       | <u><u>92,271</u></u>        |
| <br><b>Total Liabilities, Fund Equity and Other Credits</b>              | <br><u><u>\$5,682,482</u></u>  | <br><u><u>\$2,086,150</u></u> | <br><u><u>\$92,271</u></u>  |

The notes to the general-purpose financial statements are an integral part of this statement.



| <u>Fiduciary<br/>Fund Types</u> | <u>Account Groups</u>               |  | <u>Total<br/>(Memorandum<br/>Only)</u> |
|---------------------------------|-------------------------------------|--|--|
| <u>Trust<br/>And<br/>Agency</u> | <u>General<br/>Fixed<br/>Assets</u> | <u>General<br/>Long-Term<br/>Obligations</u> |  |
| \$2,788,199                     |                                     |  | \$9,504,078                            |
|                                 |                                     |  | 1,041,143                              |
| 4,397                           |                                     |  | 76,153                                 |
|                                 |                                     |  | 13,422                                 |
|                                 |                                     |  | 6,561                                  |
|                                 |                                     |  | 12,142                                 |
|                                 | \$4,366,188                         |  | 4,366,188                              |
|                                 |                                     | \$344,511                                    | 344,511                                |
| <u>\$2,792,596</u>              | <u>\$4,366,188</u>                  | <u>\$344,511</u>                             | <u>\$15,364,198</u>                    |
|                                 |                                     |  | \$233,702                              |
|                                 |                                     |  | 1,955,444                              |
|                                 |                                     | \$21,893                                     | 147,225                                |
|                                 |                                     |  | 13,422                                 |
| \$1,327,066                     |                                     |  | 1,327,066                              |
|                                 |                                     |  | 317,557                                |
|                                 |                                     | 312,877                                      | 356,956                                |
|                                 |                                     | 9,741  | 9,741                                  |
| <u>1,327,066</u>                | <u>0</u>                            | <u>344,511</u>                               | <u>4,361,113</u>                       |
|                                 | 4,366,188                           |  | 4,366,188                              |
| 1,465,530                       |                                     |  | 1,465,530                              |
|                                 |                                     |  | 864,509                                |
|                                 |                                     |  | 12,142                                 |
|                                 |                                     |  | 4,294,716                              |
| <u>1,465,530</u>                | <u>4,366,188</u>                    | <u>0</u>                                     | <u>11,003,085</u>                      |
| <u>\$2,792,596</u>              | <u>\$4,366,188</u>                  | <u>\$344,511</u>                             | <u>\$15,364,198</u>                    |

(Continued)

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|   | <u>Governmental Fund Types</u> |                            |                             | <u>Total<br/>(Memorandum<br/>Only)</u> |
|---|--------------------------------|----------------------------|-----------------------------|--|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |  |
| <b>Revenues:</b>  |                                |                            |                             |  |
| Intergovernmental   | \$16,524,078                   | \$2,490,727                | \$30,818                    | \$19,045,623                           |
| Interest  | 381,940                        |                            | 3,279                       | 385,219                                |
| Tuition and Fees  | 2,509,559                      | 334,588                    |                             | 2,844,147                              |
| Miscellaneous   |                                | 28,639                     |                             | 28,639                                 |
| <b>Total Revenues</b>   | <u>19,415,577</u>              | <u>2,853,954</u>           | <u>34,097</u>               | <u>22,303,628</u>                      |
| <b>Expenditures:</b>  |                                |                            |                             |  |
| Current:  |                                |                            |                             |  |
| Instruction:  |                                |                            |                             |  |
| Regular   |                                | 121,946                    |                             | 121,946                                |
| Special   | 7,537,997                      | 644,522                    |                             | 8,182,519                              |
| Support Services:   |                                |                            |                             |  |
| Pupils  | 2,797,227                      | 224,707                    |                             | 3,021,934                              |
| Instructional Staff   | 4,783,778                      | 1,497,661                  |                             | 6,281,439                              |
| Board of Education  | 29,330                         |                            |                             | 29,330                                 |
| Administration  | 386,654                        | 60,692                     |                             | 447,346                                |
| Fiscal  | 234,888                        | 18,312                     |                             | 253,200                                |
| Business  | 239,897                        | 28,418                     |                             | 268,315                                |
| Operation and Maintenance of Plant  | 9,535                          | 2,646                      |                             | 12,181                                 |
| Pupil Transportation  | 644,690                        | 4,222                      |                             | 648,912                                |
| Central   | 586,196                        | 27,369                     |                             | 613,565                                |
| Operation of Non-Instructional  |                                |                            |                             |  |
| Services  | 100                            | 600                        |                             | 700                                    |
| Capital Outlay  | 11,990                         |                            |                             | 11,990                                 |
| Debt Service:   |                                |                            |                             |  |
| Principal Retirement  | 6,919                          | 241                        |                             | 7,160                                  |
| Interest and Fiscal Charges   | 1,171                          | 73                         |                             | 1,244                                  |
| <b>Total Expenditures</b>   | <u>17,270,372</u>              | <u>2,631,409</u>           | <u>0</u>                    | <u>19,901,781</u>                      |
| Excess of Revenues Over Expenditures  | <u>2,145,205</u>               | <u>222,545</u>             | <u>34,097</u>               | <u>2,401,847</u>                       |
| <b>Other Financing Sources (Uses):</b>  |                                |                            |                             |  |
| Inception of Capital Lease  | 11,990                         |                            |                             | 11,990                                 |
| Operating Transfers In  | 32,984                         | 571,643                    |                             | 604,627                                |
| Operating Transfers Out   | (573,043)                      | (31,584)                   |                             | (604,627)                              |
| <b>Total Other Financing Sources (Uses)</b>   | <u>(528,069)</u>               | <u>540,059</u>             | <u>0</u>                    | <u>11,990</u>                          |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 1,617,136                      | 762,604                    | 34,097                      | 2,413,837                              |
| Fund Balances at Beginning of Year  | 1,681,492                      | 1,019,019                  | 58,174                      | 2,758,685                              |
| Decrease in Reserve for Inventory   | (1,155)                        |                            |                             | (1,155)                                |
| <b>Fund Balances at End of Year</b>   | <u><b>\$3,297,473</b></u>      | <u><b>\$1,781,623</b></u>  | <u><b>\$92,271</b></u>      | <u><b>\$5,171,367</b></u>              |

The notes to the general-purpose financial statements are an integral part of this statement.

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|   | General Fund       |                    |                                  | Special Revenue Fund |                    |                                  |
|---|--------------------|--------------------|----------------------------------|----------------------|--------------------|----------------------------------|
|   | Revised Budget     | Actual             | Variance Favorable (Unfavorable) | Revised Budget       | Actual             | Variance Favorable (Unfavorable) |
| <b>Revenues:</b>  |                    |                    |                                  |                      |                    |                                  |
| Intergovernmental   | \$16,524,078       | \$16,524,078       | \$0                              | \$2,546,800          | \$2,546,800        | \$0                              |
| Interest  | 343,183            | 343,183            | 0                                |                      |                    |                                  |
| Tuition and Fees  | 2,251,937          | 2,251,937          | 0                                | 338,767              | 338,767            | 0                                |
| Miscellaneous   |                    |                    |                                  | 28,639               | 28,639             | 0                                |
| <b>Total Revenues</b>   | <b>19,119,198</b>  | <b>19,119,198</b>  | <b>0</b>                         | <b>2,914,206</b>     | <b>2,914,206</b>   | <b>0</b>                         |
| <b>Expenditures:</b>  |                    |                    |                                  |                      |                    |                                  |
| Current:  |                    |                    |                                  |                      |                    |                                  |
| Instruction:  |                    |                    |                                  |                      |                    |                                  |
| Regular   |                    |                    |                                  | 173,825              | 158,700            | 15,125                           |
| Special   | 7,749,869          | 7,749,863          | 6                                | 900,890              | 708,508            | 192,382                          |
| Support Services:   |                    |                    |                                  |                      |                    |                                  |
| Pupils  | 2,775,864          | 2,773,694          | 2,170                            | 222,802              | 222,802            | 0                                |
| Instructional Staff   | 4,709,582          | 4,697,594          | 11,988                           | 2,562,564            | 1,913,877          | 648,687                          |
| Board of Education  | 34,335             | 34,335             | 0                                |                      |                    |                                  |
| Administration  | 397,131            | 397,131            | 0                                | 78,361               | 60,935             | 17,426                           |
| Fiscal  | 253,743            | 253,743            | 0                                | 37,890               | 22,337             | 15,553                           |
| Business  | 268,777            | 268,777            | 0                                | 37,639               | 28,368             | 9,271                            |
| Operation and Maintenance of Plant  | 10,409             | 10,409             | 0                                | 3,425                | 3,344              | 81                               |
| Pupil Transportation  | 83,077             | 83,077             | 0                                | 9,151                | 4,885              | 4,266                            |
| Central   | 620,486            | 617,052            | 3,434                            | 595,359              | 39,590             | 555,769                          |
| Operation of Non-Instructional Services   | 100                | 100                | 0                                | 26,930               | 600                | 26,330                           |
| Capital Outlay  |                    |                    |                                  |                      |                    |                                  |
| <b>Total Expenditures</b>   | <b>16,903,373</b>  | <b>16,885,775</b>  | <b>17,598</b>                    | <b>4,648,836</b>     | <b>3,163,946</b>   | <b>1,484,890</b>                 |
| Excess of Revenues Over (Under) Expenditures  | 2,215,825          | 2,233,423          | 17,598                           | (1,734,630)          | (249,740)          | 1,484,890                        |
| <b>Other Financing Sources (Uses):</b>  |                    |                    |                                  |                      |                    |                                  |
| Operating Transfers In  | 32,984             | 32,984             | 0                                | 523,498              | 523,498            | 0                                |
| Advances In   | 19,441             | 19,441             | 0                                | 13,422               | 13,422             | 0                                |
| Refund of Prior Year Expenditures   | 330                | 330                | 0                                |                      |                    |                                  |
| Advances Out  | (13,422)           | (13,422)           | 0                                | (19,441)             | (19,441)           | 0                                |
| Refund of Prior Year Receipts   | (24)               |                    | 24                               | (106,548)            | (56,074)           | 50,474                           |
| Operating Transfers Out   | (1,089,145)        | (1,086,510)        | 2,635                            | (31,584)             | (31,584)           | 0                                |
| <b>Total Other Financing Sources (Uses)</b>   | <b>(1,049,836)</b> | <b>(1,047,177)</b> | <b>2,659</b>                     | <b>379,347</b>       | <b>429,821</b>     | <b>50,474</b>                    |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 1,165,989          | 1,186,246          | 20,257                           | (1,355,283)          | 180,081            | 1,535,364                        |
| Fund Balances at Beginning of Year  | 2,544,964          | 2,544,964          | 0                                | 820,905              | 820,905            | 0                                |
| Prior Year Encumbrances Appropriated  | 326,708            | 326,708            | 0                                | 534,378              | 534,378            | 0                                |
| <b>Fund Balances at End of Year</b>   | <b>\$4,037,661</b> | <b>\$4,057,918</b> | <b>\$20,257</b>                  | <b>\$0</b>           | <b>\$1,535,364</b> | <b>\$1,535,364</b>               |

The notes to the general-purpose financial statements are an integral part of this statement.

| Capital Projects Fund |                 |                                  | Total (Memorandum Only) |                    |                                  |
|-----------------------|-----------------|----------------------------------|-------------------------|--------------------|----------------------------------|
| Revised Budget        | Actual          | Variance Favorable (Unfavorable) | Revised Budget          | Actual             | Variance Favorable (Unfavorable) |
| \$30,818              | \$30,818        | \$0                              | \$19,101,696            | \$19,101,696       | \$0                              |
| 3,196                 | 3,196           | 0                                | 346,379                 | 346,379            | 0                                |
|                       |                 |                                  | 2,590,704               | 2,590,704          | 0                                |
|                       |                 |                                  | 28,639                  | 28,639             | 0                                |
| <u>34,014</u>         | <u>34,014</u>   | <u>0</u>                         | <u>22,067,418</u>       | <u>22,067,418</u>  | <u>0</u>                         |
|                       |                 |                                  | 173,825                 | 158,700            | 15,125                           |
|                       |                 |                                  | 8,650,759               | 8,458,371          | 192,388                          |
|                       |                 |                                  | 2,998,666               | 2,996,496          | 2,170                            |
| 30,817                |                 | 30,817                           | 7,302,963               | 6,611,471          | 691,492                          |
|                       |                 |                                  | 34,335                  | 34,335             | 0                                |
|                       |                 |                                  | 475,492                 | 458,066            | 17,426                           |
|                       |                 |                                  | 291,633                 | 276,080            | 15,553                           |
|                       |                 |                                  | 306,416                 | 297,145            | 9,271                            |
|                       |                 |                                  | 13,834                  | 13,753             | 81                               |
|                       |                 |                                  | 92,228                  | 87,962             | 4,266                            |
|                       |                 |                                  | 1,215,845               | 656,642            | 559,203                          |
|                       |                 |                                  | 27,030                  | 700                | 26,330                           |
| <u>61,122</u>         | <u>0</u>        | <u>61,122</u>                    | <u>61,122</u>           |                    | <u>61,122</u>                    |
| <u>91,939</u>         | <u>0</u>        | <u>91,939</u>                    | <u>21,644,148</u>       | <u>20,049,721</u>  | <u>1,594,427</u>                 |
| <u>(57,925)</u>       | <u>34,014</u>   | <u>91,939</u>                    | <u>423,270</u>          | <u>2,017,697</u>   | <u>1,594,427</u>                 |
|                       |                 |                                  | 556,482                 | 556,482            | 0                                |
|                       |                 |                                  | 32,863                  | 32,863             | 0                                |
|                       |                 |                                  | 330                     | 330                | 0                                |
|                       |                 |                                  | (32,863)                | (32,863)           | 0                                |
|                       |                 |                                  | (106,572)               | (56,074)           | 50,498                           |
|                       |                 |                                  | (1,120,729)             | (1,118,094)        | 2,635                            |
| <u>0</u>              | <u>0</u>        | <u>0</u>                         | <u>(670,489)</u>        | <u>(617,356)</u>   | <u>53,133</u>                    |
| (57,925)              | 34,014          | 91,939                           | (247,219)               | 1,400,341          | 1,647,560                        |
| 57,925                | 57,925          | 0                                | 3,423,794               | 3,423,794          | 0                                |
|                       |                 |                                  | 861,086                 | 861,086            | 0                                |
| <u>\$0</u>            | <u>\$91,939</u> | <u>\$91,939</u>                  | <u>\$4,037,661</u>      | <u>\$5,685,221</u> | <u>\$1,647,560</u>               |

**STATEMENT OF CHANGES IN NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|   |                                  |
|---|----------------------------------|
| <b>Revenues:</b>                                    |                                  |
| Interest  | \$50,558                         |
| <b>Expenses:</b>                                    |                                  |
| Operating   | <u>0</u>                         |
| Net Increase in Assets Resulting<br>from Operations | 50,558                           |
| Capital Transactions                                | <u>370,175</u>                   |
| Increase in Assets                                  | 420,733                          |
| Net Assets Beginning of Year                        | <u>1,044,797</u>                 |
| <b>Net Assets at End of Year</b>                    | <b><u><u>\$1,465,530</u></u></b> |

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**

**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 209 noncertified and 187 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 ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Montgomery County Educational Service Center, this includes general operations and student related activities.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

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

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

**1. Governmental Fund Types**

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

**General Fund**

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

**Special Revenue Funds**

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 Fund**

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**2. Fiduciary Fund Types**

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

**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.



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

**General Long-Term Obligations Account Group**

This account group is established to account for all long-term obligations of the Educational Service Center.

**B. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

**C. Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable. The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds, other than agency funds and the investment trust fund, legally

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

are required to be budgeted and appropriated. The investment trust fund is classified as an agency fund for budgetary purposes. Because the activity of agency funds is not budgeted, transfers in and transfers out do not equal on the budgetary basis due to a transfer of \$561,612 from the general fund to an agency fund.

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

**1. Appropriations**

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

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

**2. Encumbrances**

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

**3. Lapsing of Appropriations**

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(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 records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 1999, investments were limited to certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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 1999 amounted to \$381,940, which includes \$198,585 assigned from other School District funds. Interest revenue was also credited to the multiple handicapped housing capital projects fund and the investment trust fund for \$3,279 and \$50,558, 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. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred and fifty dollars. The Educational Service Center does not have any infrastructure.

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

Assets of the Educational Service Center are not depreciated.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

**H. Intergovernmental Revenues**

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

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

**Entitlements**

**General Fund**

State Foundation Program

**Non-Reimbursable Grants**

**Special Revenue Funds**

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

**Reimbursable Grants**

**Agency Fund**

School Bus Purchase Program  
E-Rate

Grants and entitlements received in governmental funds amounted to 86 percent of the governmental fund revenue during the 1999 fiscal year.

**I. Interfund Assets/Liabilities**

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

**J. Compensated Absences**

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

**L. Interfund Transactions**

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

**M. Fund Balance Reserves**

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

**N. Estimates**

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

**O. Total Columns on General Purpose Financial Statements**

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**3. ACCOUNTABILITY**

At June 30, 1999, the Headstart and Eisenhower grants special revenue funds had deficit fund balances of \$21 and \$1,794, respectively, which were created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**4. 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) - All Governmental Fund Types, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

**Excess of Revenues and Other Financing Sources  
Over Expenditures and Other Financing Uses  
Governmental Fund Types**

|                      | <b>General</b> | <b>Special Revenue</b> | <b>Capital<br/>Projects</b> |
|----------------------|----------------|------------------------|-----------------------------|
| GAAP Basis           | \$1,617,136    | \$762,604              | \$34,097                    |
| Revenue Accruals     | (308,039)      | 60,252                 | (83)                        |
| Expenditure Accruals | 870,981        | (51,875)               | 0                           |
| Prepaid Items        | 6,538          | 23                     | 0                           |
| Transfers            | (513,467)      | (48,145)               | 0                           |
| Advances             | 6,019          | (6,019)                | 0                           |
| Encumbrances         | (492,922)      | (536,759)              | 0                           |
| Budget Basis         | \$1,186,246    | \$180,081              | \$34,014                    |

**5. 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

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

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

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

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

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

Deposits - At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$9,504,078. The bank balance was \$10,863,653. \$200,000 of the bank balance was covered by federal depository insurance. \$10,663,653 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

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

**6. 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 1999 to December 1999, with interest rates ranging from 4.60% to 4.95%.

Condensed financial information for the investment pool follows:

**Statement of Net Assets**  
**June 30, 1999**

|  |             |
|--|-------------|
| Assets:  |             |
| Cash   | \$9,504,078 |
| Interest Receivable                                  | 76,153      |
| Total Assets   | \$9,580,231 |
| Net Assets Held in Trust for Pool Participants       |             |
| Internal Portion                                     | \$8,114,701 |
| External Portion                                     | 1,465,530   |
| Total Net Assets Held in Trust for Pool Participants | \$9,580,231 |



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**6. INVESTMENT POOL (Continued)**

**Statement of Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 1999**

|  |                           |
|--|---------------------------|
| Revenues:  |                           |
| Interest   | \$435,777                 |
| Expenses:  |                           |
| Operating Expenses                               | <u>0</u>                  |
| Net Increase in Assets Resulting from Operations | 435,777                   |
| Capital Transactions                             | <u>2,220,975</u>          |
| Increase in Net Assets                           | 2,656,752                 |
| Net Assets Beginning of Year                     | <u>6,923,479</u>          |
| Net Assets End of Year                           | <u><u>\$9,580,231</u></u> |

**7. STATE FUNDING**

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$34. This amount is provided from State resources.

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

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program," which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$16,420,690 of school foundation support for its general fund.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**7. STATE FUNDING (Continued)**

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**8. RECEIVABLES**

Receivables at June 30, 1999, consisted of intergovernmental, accrued interest, and interfund receivable. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

|   | <b>Amounts</b>     |
|---|--------------------|
| General Fund                                  |                    |
| SBH Billing                                   | \$372,120          |
| Multihandicapped Billing                      | 222,427            |
| Pathway                                       | 8,426              |
| Intensive Outpatient                          | 3,006              |
| Low Vision                                    | 85,255             |
| Occupational Therapy                          | 70,786             |
| Physical Therapy                              | 62,981             |
| Assessments                                   | 17,610             |
| Printing/Miscellaneous                        | 134,389            |
| Psychological                                 | 41,145             |
| Mental Health                                 | 8,994              |
| Total General Fund                            | 1,027,139          |
| Special Revenue Fund:                         |                    |
| SBH Consultation Services                     | 14,004             |
| Grand Total All Intergovernmental Receivables | <b>\$1,041,143</b> |

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**9. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 1999 follows:

| <u>Asset Category</u>             | <u>Balance at<br/>06/30/98</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at<br/>06/30/99</u> |
|-----------------------------------|--------------------------------|------------------|------------------|--------------------------------|
| Furniture, Fixtures and Equipment | \$2,176,860                    | \$126,136        | \$107,119        | \$2,195,877                    |
| Vehicles                          | 1,914,164                      | 322,146          | 65,999           | 2,170,311                      |
| Total General Fixed Assets        | <u>\$4,091,024</u>             | <u>\$448,282</u> | <u>\$173,118</u> | <u>\$4,366,188</u>             |

There was no significant construction in progress at June 30, 1999.

**10. 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. During fiscal year 1999, the Educational Service Center contracted 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) | \$7,288,834 |
|--|-------------|

Coverage provided by GRE Insurance Group is as follows:

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

Coverage provided by Nationwide Insurance is as follows:

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**10. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 1999, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management Incorporated provides administrative, cost control and actuarial services to the GRP.

**11. 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 administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$522,155, \$714,763, and \$785,038, respectively; 100 percent has been contributed for fiscal years 1999, 1998, and 1997.

**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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**11. 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 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$361,636, \$429,466, and \$313,357, respectively; 100 percent has been contributed for fiscal year 1999, 1998, and 1997.

**12. 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$696,206 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 1999, 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 \$317,777 during the 1999 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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**13. 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.

**C. Life Insurance**

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

**14. CAPITAL LEASES - LESSEE DISCLOSURE**

The Educational Service Center has entered into capitalized leases for equipment. The lease agreement is accounted for on a GAAP basis as a support services expenditure in the General Fund with an offsetting amount reported as an other financing source, inception on capital lease. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$58,503, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999.

| Fiscal Year Ending June 30,                 | GLTOAG  |
|---|---------|
| 2000  | \$2,997 |
| 2001  | 2,997   |
| 2002  | 2,997   |
| 2003  | 750     |
| Total                                       | 9,741   |
| Less: Amount Representing Interest          | 0       |
| Present Value of Net Minimum Lease Payments | \$9,741 |

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
(Continued)

**15. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 1999 were as follows:

|  | <b>Amount<br/>Outstanding<br/>6/30/98</b> | <b>Additions</b> | <b>Deductions</b> | <b>Amount<br/>Outstanding<br/>6/30/99</b> |
|--|---|------------------|-------------------|---|
| Capital Leases                             | \$13,069                                  | \$11,990         | \$15,318          | \$9,741                                   |
| Intergovernmental Payable                  | 26,528                                    | 21,893           | 26,528            | 21,893                                    |
| Compensated Absences                       | 279,729                                   | 33,148           | 0                 | 312,877                                   |
| <b>Total General Long-Term Obligations</b> | <b>\$319,326</b>                          | <b>\$67,031</b>  | <b>\$41,846</b>   | <b>\$344,511</b>                          |

Capital leases will be paid from the general fund. During fiscal year 1999, the Educational Service Center terminated a capital lease for a copier, resulting in a \$8,158 reduction in capital leases payable. Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension obligations paid outside the available period and will be paid from the fund from which the person is paid.

**16. INTERFUND ACTIVITY**

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

| <b>Fund Type/Fund</b>        | <b>Interfund<br/>Receivable</b> | <b>Interfund<br/>Payable</b> |
|------------------------------|---------------------------------|------------------------------|
| General Fund                 | \$13,422                        | \$0                          |
| Special Revenue Funds:       |                                 |                              |
| Miscellaneous Federal Grants | 0                               | 13,422                       |
| <b>Total All Funds</b>       | <b>\$13,422</b>                 | <b>\$13,422</b>              |

In prior years, there were interfund receivables/payables between the general fund and the seek and teacher development special revenue funds. These amounts were not intended to be repaid, so we have created a transfer to reflect the change in activity.

**17. JOINTLY GOVERNED ORGANIZATIONS**

**A. Metropolitan Dayton Educational Cooperative Association**

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

The governing board of MDECA consists of one representative from each district plus one representative from the fiscal agent. The Educational Service Center paid MDECA \$20,616 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

**B. 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, 1999.

**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.

**20. YEAR 2000 COMPLIANCE**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations.

As of January 21, 2000, the Educational Service Center identified the following mission-critical electronic systems and equipment:



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**20. YEAR 2000 COMPLIANCE (Continued)**

The Educational Service Center uses Ohio Education Computer Network (OECN) State Software for their budgetary, payroll, fixed asset inventory and education information system (EMIS) accounting services. These services are provided by the Metropolitan Dayton Educational Cooperative Association (MDECA - see Note 17). OECN is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with the Foundation processing and EMIS systems.

To the best of management's knowledge and belief, the Center experienced no significant interruption of mission-critical operations or services related to the year 2000 issue. However, because of the unprecedented nature of the year 2000 issue, matters may yet arise, and parties with whom the Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 1999**

| <b>FEDERAL GRANTOR</b><br><i>Pass-Through Grantor</i><br>Program Title   | Federal<br>CFDA<br>Number | Pass-Through<br>Entity's<br>Number                           | Receipts                                 | Disbursements                           |
|--|---------------------------|--|--|---|
| <b>UNITED STATES DEPARTMENT OF EDUCATION</b><br>(Passed through Ohio Department of Education)<br>Special Education Cluster |                           |  |  |   |
| Title VI-B-Educ of Hanicapped/Children(A)  | 84.027                    | 6B II 98 P<br>6B-SI 98<br>6B SI 98 P<br>6B-SI 98 P           | 16,666<br>213,212<br>(19,674)<br>939,363 | 28,752<br>325,600<br>0<br>787,645       |
| Total VI-B   |                           |  | <u>1,149,567</u>                         | <u>1,141,997</u>                        |
| Preschool Grants   | 84.173                    | PG S3 98<br>PG S3 98 P<br>PG S1 98 P<br>PG S7 98<br>PG S7 99 | 0<br>66,954<br>507<br>(264)<br>10,000    | 11,235<br>51,358<br>0<br>1,563<br>6,749 |
| Total Preschool Grants   |                           |  | <u>77,197</u>                            | <u>70,905</u>                           |
| Total Special Education Cluster  |                           |  | 1,226,764                                | 1,212,902                               |
| Eisenhower - Title III   | 84.281                    | MS-S1 98 P<br>MS-S1 97 C                                     | 25,273<br>(4,543)                        | 10,199<br>5,757                         |
| Total Eisenhower - Title III   |                           |  | <u>20,730</u>                            | <u>15,956</u>                           |
| Drug Free Schools  | 84.186                    | DR-S2-97<br>DR-S2 98C<br>DR-S2 98<br>DR-S2 99                | (362)<br>90,933<br>0<br>375,582          | 7,766<br>100,230<br>123,404<br>157,975  |
| Total Drug Free Schools  |                           |  | <u>466,153</u>                           | <u>389,375</u>                          |
| Netscape - Goals 2000  | 84.276                    | G2-SP 97 C<br>G2-SP 98<br>G2-S6 99P<br>G2-S5 99              | (9,241)<br>0<br>4,900<br>100,000         | 0<br>300<br>3,937<br>11,378             |
| Goals 2000 Subsidy 5<br>Total Netscape-Goals 2000  |                           |  | <u>95,659</u>                            | <u>15,615</u>                           |
| (Passed through Ohio Department of Health)<br>Infants and Toddlers with Disabilities                                       | 84.181                    | N/A  | 545,804                                  | 564,136                                 |
| School Year Training   | 84.029                    | PD-A1-98   | (8,511)                                  | 0                                       |
| Project Life   | 84.158                    | PF-S1 98 P   | 6,000                                    | 2,144                                   |
| <b>Total</b>   |                           |  | <u><u>2,352,599</u></u>                  | <u><u>2,200,128</u></u>                 |

The notes to the schedule of federal awards receipts and expenditures are an integral part of this statement.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 1999**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures is a summary of the activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - NEGATIVE RECEIPTS**

Receipts with negative balances are to reflect funds returned to the grantor agency.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Education:

We have audited the financial statements of Montgomery County Educational Service Center, (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 21, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we have noted a matter involving the internal control over financial reporting and its operation that does not require inclusion in this report that we have reported to management of the District in a separate letter dated January 21, 2000.

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.

**Jim Petro**  
Auditor of State

January 21, 2000



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

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

To the Board of Education:

**Compliance**

We have audited the compliance of Montgomery County Educational Service Center, (the Educational Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to its major federal program for the year ended June 30, 1999. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Educational Service Center's compliance with those requirements.

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.

**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 audit committee, 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

January 21, 2000



**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 1999**

**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 # 84.027<br>Special Education Grants to States: CFDA # 84.173<br>Preschool Grants |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 300,000<br>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.

**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**OMB CIRCULAR A -133 § .315 (b)**  
**JUNE 30, 1999**

| <u>Finding Number</u> | <u>Finding Summary</u>                                       | <u>Fully Corrected ?</u>   | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b> |
|-----------------------|--|--|---|
| 1998-10357-001        | Reported expenditures were in excess of actual expenditures. | Yes. Prior year audit report indicates that this was corrected during the prior fiscal year. | N/A   |



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**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  
FEBRUARY 15, 2000**