



Mary Taylor, CPA  
Auditor of State



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, (the Center), as of and for the year ended June 30, 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2010, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 27, 2010

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED**

The discussion and analysis of the Montgomery County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2009 are as follows:

- In total, net assets increased \$1,344,861, which represents a seven percent increase.
- General revenues, consisting mostly of State foundation, accounted for \$2,309,556 or seven percent of total revenues of \$32,136,264. With certain limited exceptions, general revenues are available for any purpose money is needed for.
- The Educational Service Center had \$30,791,403 in expenses; \$29,826,708 of these expenses were offset by program specific charges for services, and operating and capital grants, interest and contributions. Program revenues are revenues whose use is restricted to paying for certain Educational Service Center functions or programs.
- The General Fund had an increase of \$1,313,884 to fund balance or 12 percent.

**Using the Basic Financial Statements**

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

The statement of net assets and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED  
(Continued)**

**Reporting the Educational Service Center as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2009" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not.

In the statement of net assets and the statement of activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where all of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant and pupil transportation.

**Reporting the Educational Service Center's Most Significant Funds**

**Fund Financial Statements**

The analysis of the Educational Service Center's major funds begins on page 11. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

**Governmental Funds**

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



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED  
(Continued)**

**The Educational Service Center as a Whole**

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2009 compared to fiscal year 2008.

**Table 1  
Net Assets**

	<b>2009</b>	<b>2008</b>	<b>Change</b>
<b>Assets:</b>			
Current and Other Assets	\$18,746,592	\$17,908,497	\$ 838,095
Capital Assets, Net	6,402,136	6,439,433	(37,297)
Total Assets	<u>25,148,728</u>	<u>24,347,930</u>	<u>800,798</u>
<b>Liabilities:</b>			
Other Liabilities	3,814,275	3,860,773	(46,498)
Long-Term Liabilities	1,198,302	1,695,867	(497,565)
Total Liabilities	<u>5,012,577</u>	<u>5,556,640</u>	<u>(544,063)</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	5,718,741	5,316,555	402,186
Restricted	2,033,021	2,280,033	(247,012)
Unrestricted	12,384,389	11,194,702	1,189,687
Total Net Assets	<u>\$20,136,151</u>	<u>\$18,791,290</u>	<u>\$1,344,861</u>

Total assets of governmental activities increased \$800,798 or three percent. Most of the increase was in current and other assets as charges for services and tuition and fees increased from a rate increase as well as increase in services to School Districts, which increased cash. Also, long-term liabilities decreased by \$497,565 due to debt payments. No new debt was entered into for fiscal year 2009.

In total, net assets increased \$1,344,861, a seven percent increase. Most of the increase was in unrestricted net assets from the increase in revenues from service rate increases and increase in services as well as keeping expenses at a small increase from a two and half increase in wage rates. Invested in capital assets, net of related debt increased by \$402,186 largely due to the decrease in long-term debt.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2009 and 2008.

**Table 2  
Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>Change</u>
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$24,612,257	\$22,460,751	\$2,151,506
Operating Grants, Interest, and Contributions	5,213,555	5,367,563	(154,008)
Capital Grants, Interest, and Contributions	896	4,792	(3,896)
Total Program Revenues	<u>29,826,708</u>	<u>27,833,106</u>	<u>1,993,602</u>
<b>General Revenues:</b>			
Grants and Entitlements not Restricted to Specific Programs	1,966,469	1,928,461	38,008
Investment Earnings	273,472	587,240	(313,768)
Gifts and Donations	15,600	70	15,530
Miscellaneous	54,015	197,080	(143,065)
Total General Revenues	<u>2,309,556</u>	<u>2,712,851</u>	<u>(403,295)</u>
Total Revenues	<u>32,136,264</u>	<u>30,545,957</u>	<u>1,590,307</u>
<b>Program Expenses:</b>			
<b>Instruction:</b>			
Special	6,555,280	6,598,753	(43,473)
<b>Support Services:</b>			
Pupils	7,569,967	7,096,466	473,501
Instructional Staff	10,185,577	10,234,488	(48,911)
Board of Education	60,667	102,718	(42,051)
Administration	1,823,677	1,695,541	128,136
Fiscal	725,353	707,078	18,275
Operation and Maintenance of Plant	1,482,250	950,319	531,931
Pupil Transportation	1,149,215	1,428,441	(279,226)
Central	959,418	982,968	(23,550)
Operation of Non-Instructional Services	244,361	229,468	14,893
Interest and Fiscal Charges	35,638	52,658	(17,020)
Total Expenses	<u>30,791,403</u>	<u>30,078,898</u>	<u>\$ 712,505</u>
Increase in Net Assets	1,344,861	467,059	
Net Assets at Beginning of Year	<u>18,791,290</u>	<u>18,324,231</u>	
Net Assets at End of Year	<u>\$20,136,151</u>	<u>\$18,791,290</u>	

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED  
(Continued)**

**Governmental Activities**

In total, revenues increased by \$1,590,307 and expenses increased by \$712,505 for a net increase of \$877,802.

Charges for services made up 77 percent of total revenues for governmental activities for the Educational Service Center in fiscal year 2009. The increase of 10 percent for charges for services was due to the rate increase for services and an increase in services to school districts in fiscal year 2009.

Investment earnings decreased by \$313,768 mainly due to drop in interest rates on the Educational Service Centers Certificates of Deposit.

Overall expenses increased \$712,505 or two percent from fiscal year 2008. The increase was largely due to wage increase of two and half percent.

**The Educational Service Center's Funds**

Information about the Educational Service Center's major fund starts on page 11. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$32,409,887 and expenditures of \$31,245,613. The net change in fund balance for the fiscal year in the General Fund was an increase of \$1,313,884.

The net change in fund balance in the General Fund was caused by an increase in charges for services due to an rate increase as well as increased services to school districts.

**General Fund Budgeting Highlights**

Under Ohio law educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2009 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

**Capital Assets**

At the end of fiscal year 2009, the Educational Service Center had \$6,402,136 invested in land, construction in progress, building and improvements, furniture and equipment, and vehicles.

Table 3 shows fiscal year 2009 balances compared to fiscal year 2008.

**Table 3**  
**Capital Assets (Net of Depreciation) at June 30,**

	<b>2009</b>	<b>2008</b>
Land	\$ 182,098	\$ 182,098
Construction in Progress	186,774	106,350
Building and Improvements	5,333,757	5,420,472
Furniture and Equipment	477,844	523,595
Vehicles	221,663	206,918
<b>Totals</b>	<b>\$6,402,136</b>	<b>\$6,439,433</b>

Overall capital assets decreased \$37,297 from fiscal year 2008 as annual depreciation outpaced additions. For more information on capital assets, refer to Note 6 of the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED  
(Continued)**

**Debt Administration**

At June 30, 2009, the Educational Service Center had \$683,395 in total outstanding debt of capital leases and forgivable debt. Refer to Notes 11 and 12 of the basic financial statements for additional information.

**Current Financial Issues and Concerns**

Legislation has been passed at the State level which could affect the regionalization of Educational Service Centers. Local districts are also reorganizing and putting to use buildings that were previously rented by the Educational Service Center. As a result, the Educational Service Center has purchased four buildings to accommodate special education programs. The Educational Service Center has seen positive outcomes from the addition of these buildings and expects this trend to continue. Some positive outcomes have been additional space for programs and more secure locations for programs which the local districts find favorable.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Joni Shoemaker, Treasurer, at Montgomery County Educational Service Center, 200 South Keowee Street, Dayton, Ohio 45402 or email at [mg\\_treas@mdeca.org](mailto:mg_treas@mdeca.org).

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$16,830,808
Accrued Interest Receivable	33,445
Intergovernmental Receivable	1,828,954
Materials and Supplies Inventory	5,703
Prepaid Items	47,682
Non-depreciable Capital Assets	368,872
Depreciable Capital Assets, Net	6,033,264
Total Assets	25,148,728
 <b>Liabilities:</b>	
Accounts Payable	107,792
Contracts Payable	170,733
Retainage Payable	16,041
Accrued Wages and Benefits Payable	2,884,766
Matured Compensated Absences Payable	87,854
Accrued Interest Payable	21,510
Intergovernmental Payable	525,579
<b>Long-Term Liabilities:</b>	
Due Within One Year	357,400
Due in More Than One Year	840,902
Total Liabilities	5,012,577
 <b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	5,718,741
<b>Restricted for:</b>	
Other Purposes	362,281
Regional Transportation	1,670,740
Unrestricted	12,384,389
Total Net Assets	\$20,136,151

*See accompanying notes to the basic financial statements.*

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Interest, and Contributions	Capital Grants, Interest, and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Special	\$6,555,280	\$6,313,458	\$218,923		(\$22,899)
<b>Support Services:</b>					
Pupils	7,569,967	7,368,374			(201,593)
Instructional Staff	10,185,577	5,540,716	3,833,640	\$896	(810,325)
Board of Education	60,667	59,167			(1,500)
Administration	1,823,677	1,587,781	163,994		(71,902)
Fiscal	725,353	405,682	294,992		(24,679)
Operation and Maintenance of Plant	1,482,250	1,278,776	375,137		171,663
Pupil Transportation	1,149,215	1,075,659	227,409		153,853
Central	959,418	931,447			(27,971)
Operation of Non-Instructional Services	244,361	51,197	99,460		(93,704)
Interest and Fiscal Charges	35,638				(35,638)
Total Governmental Activities	<u>\$30,791,403</u>	<u>\$24,612,257</u>	<u>\$5,213,555</u>	<u>\$896</u>	<u>(964,695)</u>
<b>General Revenues:</b>					
Grants and Entitlements not Restricted to Specific Programs					1,966,469
Investment Earnings					273,472
Gifts and Donations					15,600
Miscellaneous					54,015
Total General Revenues					<u>2,309,556</u>
Change in Net Assets					1,344,861
Net Assets at Beginning of Year					18,791,290
Net Assets at End of Year					<u>\$20,136,151</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$14,513,738	\$2,317,070	\$16,830,808
Accrued Interest Receivable	33,445		33,445
Intergovernmental Receivable	1,279,375	549,579	1,828,954
Interfund Receivable	458,821		458,821
Materials and Supplies Inventory	5,703		5,703
Prepaid Items	47,682		47,682
Total Assets	<u>16,338,764</u>	<u>2,866,649</u>	<u>19,205,413</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts Payable	67,986	39,806	107,792
Contracts Payable	170,733		170,733
Retainage Payable	16,041		16,041
Accrued Wages and Benefits Payable	2,693,664	191,102	2,884,766
Matured Compensated Absences Payable	87,854		87,854
Interfund Payable		458,821	458,821
Intergovernmental Payable	497,768	27,811	525,579
Deferred Revenue	126,382	102,621	229,003
Total Liabilities	<u>3,660,428</u>	<u>820,161</u>	<u>4,480,589</u>
<b>Fund Balances:</b>			
Reserved for Encumbrances	882,074	217,005	1,099,079
<b>Unreserved, Undesignated, Reported in:</b>			
General Fund	11,796,262		11,796,262
Special Revenue Funds		1,829,483	1,829,483
Total Fund Balances	<u>12,678,336</u>	<u>2,046,488</u>	<u>14,724,824</u>
Total Liabilities and Fund Balances	<u>\$16,338,764</u>	<u>\$2,866,649</u>	<u>\$19,205,413</u>

*See accompanying notes to the basic financial statements.*

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009**

Total Governmental Fund Balances \$14,724,824

**Amounts reported for governmental activities in the  
statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$182,098	
Construction in Progress	186,774	
Building and Improvements	5,846,749	
Furniture and Equipment	3,644,965	
Vehicles	1,169,760	
Accumulated Depreciation	<u>(4,628,210)</u>	
		6,402,136

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Tuition and Fees	16,835	
Intergovernmental Grants	102,421	
Charges for Services	106,670	
Interest	<u>3,077</u>	
		229,003

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Interest on Capital Lease	(21,510)	
Compensated Absences Payable	(514,907)	
Capital Lease Payable	(626,078)	
Forgiveable Loan	<u>(57,317)</u>	
		<u>(1,219,812)</u>

Net Assets of Governmental Activities \$20,136,151

*See accompanying notes to the basic financial statements.*



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Intergovernmental	\$2,177,828	\$5,139,991	\$7,317,819
Interest	283,848	995	284,843
Tuition and Fees	17,141,511	978,347	18,119,858
Rent	318,144		318,144
Gifts and Donations	15,000	1,169	16,169
Charges for Services	5,895,582	403,457	6,299,039
Miscellaneous	52,423	1,592	54,015
Total Revenues	<u>25,884,336</u>	<u>6,525,551</u>	<u>32,409,887</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Special	6,411,466	150,999	6,562,465
<b>Support Services:</b>			
Pupils	7,574,288		7,574,288
Instructional Staff	5,686,981	4,377,614	10,064,595
Board of Education	60,667		60,667
Administration	1,604,211	196,380	1,800,591
Fiscal	408,806	310,086	718,892
Operation and Maintenance of Plant	1,068,046	410,389	1,478,435
Pupil Transportation		1,112,220	1,112,220
Central	974,773		974,773
Operation of Non-Instructional Services	36,878	205,972	242,850
Capital Outlay	184,574	2,200	186,774
<b>Debt Service:</b>			
Principal Retirement	427,705		427,705
Interest and Fiscal Charges	41,358		41,358
Total Expenditures	<u>24,479,753</u>	<u>6,765,860</u>	<u>31,245,613</u>
Excess of Revenues Over/(Under) Expenditures	<u>1,404,583</u>	<u>(240,309)</u>	<u>1,164,274</u>
<b>Other Financing Sources (Uses):</b>			
Transfers In		90,699	90,699
Transfers Out	(90,699)		(90,699)
Total Other Financing Sources (Uses)	<u>(90,699)</u>	<u>90,699</u>	
Net Change in Fund Balances	1,313,884	(149,610)	1,164,274
Fund Balances at Beginning of Year - Note 17	11,364,452	2,196,098	13,560,550
Fund Balances at End of Year	<u>\$12,678,336</u>	<u>\$2,046,488</u>	<u>\$14,724,824</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Funds		\$1,164,274
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Capital Asset Additions	\$269,598	
Depreciation Expense	<u>(295,240)</u>	
Excess of depreciation expense under capital outlay		(25,642)
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
Loss on Disposal of Capital Assets		(11,655)
 Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:		
Capital Lease		427,705
 The City of Moraine forgave the Educational Service Center's current year portion of the loan (See Note 12) On the statement of activities the Educational Service Center recorded this as gifts and donations revenue.		
Forgivable Debt Principal	11,778	
Decrease Accrued Interest on Forgivable Debt	<u>600</u>	
		12,378
 Some revenues that will not be collected for several months after the Educational Service Center's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred Revenues changed by these amounts:		
Tuition and Fees	(81,269)	
Intergovernmental Revenue	(150,742)	
Charges for Services	(43,515)	
Interest	<u>(10,475)</u>	
		(286,001)
 Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the statement of activities is the result of the following:		
Decrease in Accrued Interest Payable		5,720
 Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Compensated Absences Payable		<u>58,082</u>
 Change in Net Assets of Governmental Activities		 <u><u>\$1,344,861</u></u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2009**

	<u>Agency</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,971,544
Accrued Interest Receivable	6,101
Intergovernmental Receivable	47,981
Total Assets	<u>\$3,025,626</u>
<b>Liabilities:</b>	
Undistributed Monies	<u>\$3,025,626</u>

*See accompanying notes to the basic financial statements.*

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND 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 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 has 132 classified staff employees, 216 certified teaching personnel, and seven administrative employees that provide services to the local, exempted village, and city school districts.

**Reporting Entity:**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center 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 organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in two jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association  
Southwestern Ohio Educational Purchasing Council

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'  
Compensation Group Rating Plan  
Ohio School Plan

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Montgomery County 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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**1. Government-wide Financial Statements:**

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

**2. Fund Financial Statements:**

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

**1. Governmental Funds:**

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

**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.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Funds:**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The Educational Service Center's agency funds account for the activity of the Metropolitan Dayton Educational Cooperative Association.

**C. Measurement Focus**

**1. Government-wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**1. Revenues - Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

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

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



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

**2. Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**3. Expenses/Expenditures:**

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

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

**E. 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 the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2009, the Educational Service Center's investments were limited to non-negotiable certificates of deposit, which are reported at cost.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2009 amounted to \$283,848 which includes \$81,905 assigned from other Educational Service Center funds.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**G. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the statement of net assets.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

**I. Capital Assets**

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five thousand dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building and Improvements	50 years
Furniture and Equipment	5-10 years
Vehicles	5-10 years

**J. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases and loans that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**K. 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 eligible employees with more than one year of service.

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include federal and State grants whose use is restricted to specified purposes.

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

The government-wide statement of net assets reports \$2,033,021 of restricted net assets, none of which is restricted by enabling legislation.

**M. Fund Balance Reserves**

The Educational Service Center reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore 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.

**N. Internal Activity**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

**O. Estimates**

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

**P. Budgetary Process**

No budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are no longer required to prepare a budget.

**3. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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 or deposit accounts, including passbook accounts.

Interim monies held by the Educational Service Center 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;
4. Bonds and other obligations of the State of Ohio;

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$19,709,802 of the Educational Service Center's bank balance of \$20,210,933 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**4. STATE AND LOCAL SCHOOL DISTRICT FUNDING**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Education Service Center.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**4. STATE AND LOCAL SCHOOL DISTRICT FUNDING (Continued)**

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

**5. RECEIVABLES**

Receivables at June 30, 2009, consisted of accrued interest, intergovernmental, and interfund. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amounts</b>
<b>Governmental Activities:</b>	
State Institute for Reading Instruction	\$25,152
Secondary Transition Specialist	19,110
School Improvement	52,500
Ohio Improvement Process	29,000
State Personnel Development	9,500
Tuition and Student Fees	200,451
Title VI B	226,500
STEM	110,565
Customer Sales and Services	1,156,176
Total Intergovernmental Receivables	<b>\$1,828,954</b>

**6. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2009, was as follows:

	<b>Balance 6/30/08</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 6/30/09</b>
<b>Governmental Activities:</b>				
<b>Capital Assets, not Being Depreciated:</b>				
Land	\$ 182,098			\$ 182,098
Construction in Progress	106,350	\$186,774	(\$106,350)	186,774
Total Capital Assets, not Being Depreciated	288,448	186,774	( 106,350)	368,872
<b>Capital Assets, Being Depreciated:</b>				
Building and Improvements	5,778,736	68,013		5,846,749
Furniture and Equipment	3,647,578	83,977	(86,590)	3,644,965
Vehicles	1,132,576	37,184		1,169,760
Total Capital Assets, Being Depreciated	10,558,890	189,174	(86,590)	10,661,474
Less Accumulated Depreciation:				
Building and Improvements	(358,264)	(154,728)		(512,992)
Furniture and Equipment	(3,123,983)	(118,073)	74,935	(3,167,121)
Vehicles	(925,658)	(22,439)		(948,097)
Total Accumulated Depreciation	(4,407,905)	(295,240) *	74,935	(4,628,210)
Capital Assets, Being Depreciated, Net	6,150,985	(106,066)	(11,655)	6,033,264
Governmental Activities Capital Assets, Net	<b>\$6,439,433</b>	<b>\$ 80,708</b>	<b>(\$118,005)</b>	<b>\$6,402,136</b>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**6. CAPITAL ASSETS (Continued)**

\*Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Special	\$25,799
<b>Support Services:</b>	
Pupils	14,715
Instructional Staff	133,381
Administration	25,799
Fiscal	5,012
Operation and Maintenance of Plant	46,024
Pupil Transportation	38,652
Central	4,347
Operation of Non-Instructional Services	1,511
Total Depreciation Expense	<u><u>\$295,240</u></u>

**7. RISK MANAGEMENT**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 14). The Educational Service Center contracts for property, fleet, and liability insurance with OSP.

Insurance coverage provided includes the following:

Buildings and Contents - (\$1,000 deductible)	\$16,943,851
Automobile Liability	2,000,000
<b>General Liability:</b>	
Per occurrence	2,000,000
Fire	500,000
Medical expense per person	10,000
General aggregate	4,000,000
Products aggregate	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**7. RISK MANAGEMENT(Continued)**

**B. Workers' Compensation**

For fiscal year 2009, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The plan is intended 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 participants is calculated as one experience and a common premium rate is applied to all participants 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Corvel Corporation provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2009, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Trust (Trust), a public entity shared risk pool consisting of fifty-five school districts (Note 14). The Educational Service Center pays monthly premiums to the Trust for employee medical, dental, and vision insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** – The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center 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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$428,532, \$425,492, and \$474,457, respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System of Ohio**

**Plan Description** – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Funding Policy** – For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were, \$1,677,252, \$1,690,754 and \$1,530,779, respectively; 83.93 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$107,874 made by the Educational Service Center and \$93,641 made by the plan members.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** – The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$325,748, \$289,019, and \$246,734, respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$31,114, \$30,658, and \$32,263 respectively; 100 percent has been contributed for fiscal years 2009, 2008, and 2007.

**B. State Teachers Retirement System of Ohio**

**Plan Description** – The Educational Service Center contributes to the cost-sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$129,019, \$130,058, and \$117,752 respectively; 83.93 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**10. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty-three days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time. All personnel leave must be used by fiscal year-end and cannot be carried forward.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 285 days for all personnel. Upon retirement, employees with ten or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days.

**B. Insurance Benefits**

The Educational Service Center provides life insurance and accidental death and disbursement insurance to employees through Insurance Company of North America. Dental insurance is provided through Superior Dental Care.

**C. Deferred Compensation Plan**

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**11. CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the Educational Service Center entered into lease-purchase agreements for the purchase of buildings.

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 and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Capital assets acquired by leases have been capitalized in the statement of net assets for governmental activities in the amount of \$2,100,000. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2009 totaled \$427,705.

The assets acquired through capital leases are as follows:

	<b>Asset Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value June 30, 2009</b>
<b>Asset:</b>			
Building	\$2,100,000	(\$165,167)	\$1,934,833

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2009.

<b>Fiscal Year</b>	<b>Total Payments</b>
2010	\$227,664
2011	227,664
2012	227,664
Total	682,992
Less: Amount Representing Interest	(56,914)
Present Value of Minimum Lease Payments	\$626,078

**12. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2009 were as follows:

	<b>Amount Outstanding 6/30/08</b>	<b>Additions</b>	<b>Deletions</b>	<b>Amount Outstanding 6/30/09</b>	<b>Due in One Year</b>
<b>Governmental Activities:</b>					
Compensated Absences Payable	\$ 572,989	\$80,251	\$138,333	\$ 514,907	\$145,064
Capital Lease Obligation	1,053,783		427,705	626,078	199,616
Forgivable Loan 2007, 8%	69,095		11,778	57,317	12,720
Total Governmental Activities					
Long-Term Obligations	\$1,695,867	\$80,251	\$577,816	\$1,198,302	\$357,400

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**12. LONG-TERM OBLIGATIONS (Continued)**

On November 10, 2006, the ESC entered into a loan agreement with the City of Moraine for \$80,000 for the purpose of making improvements to the 3500 Kettering Boulevard building. The loan was issued for six years with the final maturity at November 10, 2012. If the ESC incurs payroll subject to income taxation by the City of Moraine in the aggregate amount of \$2,000,000 per annum each year of the six year loan agreement, the City of Moraine shall forgive 16.5 percent of the loan principal and the interest on the loan each year. In fiscal year 2009, the City of Moraine forgave \$11,778 of the principal.

Compensated absences will be paid from the General, Miscellaneous State Grants, Miscellaneous Federal Grants, Regional Transportation, Title VI-B, and Entry Year Funds. Capital leases will be paid from the General Fund.

Principal requirements to retire forgivable debt at June 30, 2009, are as follows:

<b>Forgivable Debt</b>			
<b>Fiscal year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$12,720	\$ 4,585	\$17,305
2011	13,738	3,568	17,306
2012	14,836	2,469	17,305
2013	16,023	1,282	17,305
Total	\$57,317	\$11,904	\$69,221

**13. INTERFUND ASSETS/LIABILITIES AND TRANSFERS**

The General Fund had an interfund receivable at June 30, 2009, of \$458,821 while the Other Governmental Funds had interfund payables of \$458,821. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant and scholarship monies. When the monies are finally received, the grant or scholarship fund reimburses the General Fund for the initial advance. All are expected to be repaid within one year.

The General Fund had transfers out to the Other Governmental Funds of \$90,699. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds.

**14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND PUBLIC ENTITY SHARED RISK POOL**

**A. Jointly Governed Organizations**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND PUBLIC ENTITY SHARED RISK POOL (Continued)**

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA \$62,332 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of over 100 school districts in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2009, the School District paid \$4,360 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**B. Insurance Purchasing Pools**

**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), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**Ohio School Plan** - The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a 13 member Board of Directors consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales and marketing to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND PUBLIC ENTITY SHARED RISK POOL (Continued)**

**C. Public Entity Shared Risk Pool**

**Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust** - The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of fifty-five school districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust that will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 1831 Harshman Road, Dayton, Ohio 45424.

**15. ACCOUNTABILITY**

The following funds had deficit fund balances as of June 30, 2009:

	<b>Deficit Fund Balances</b>
Food Service	\$11,132
Holden Jennings-Dayton Regional	1,258
Teacher Development	1,526

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficit in these funds to be corrected in early fiscal year 2010. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**16. CONTINGENCIES**

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, 2009.

**17. RESTATEMENT OF FUND BALANCE**

There was a restatement between the General Fund and Other Governmental Funds due to adjustment of Community Alternative Funding System monies.

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Fund Balances, June 30, 2008	\$10,414,336	\$3,146,214	\$13,560,550
Restatement of CAFS Monies	950,116	(950,116)	
Adjusted Fund Balances, June 30, 2008	\$11,364,452	\$2,196,098	\$13,560,550

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>			
<i>Passed through the Ohio Department of Education</i>			
Nutrition Cluster:			
School Breakfast Program	10.553	\$33,405	\$33,405
National School Lunch Program	10.555	63,058	63,058
Total United States Department of Agriculture		<u>96,463</u>	<u>96,463</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>			
<i>Passed Through the Ohio Department of Education</i>			
Special Education Cluster:			
Special Education_Grants to States	84.027	1,884,004	1,844,735
Special Education_Preschool Grants	84.173	2,841	2,841
Total Special Education Cluster		<u>1,886,845</u>	<u>1,847,576</u>
Special Education-State Personnel Development	84.323	93,407	46,880
Rehabilitation Services Demonstration and Training Programs	84.235	127,255	110,177
School Improvement Grants	84.377	4,000	4,000
Total United States Department of Education		<u>2,111,507</u>	<u>2,008,633</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through the Tri-County Educational Service Center</i>			
Medical Assistance Program	93.778	896	
<i>Passed Through the Ohio Department of Developmental Disabilities</i>			
Medical Assistance Program	93.778	178,626	
Total United States Department of Health and Human Services - Medical Assistance Program		<u>179,522</u>	
Total Federal Financial Assistance		<u>\$2,387,492</u>	<u>\$2,105,096</u>

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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D – MEDICAL ASSISTANCE PROGRAM**

The Center received medical assistance program settlements for the community alternative funding system (CAFS) in the amount of \$179,522. These are for reimbursements of services provided in prior years; therefore no expenditures are reported in the current fiscal year.

**NOTE E – FEDERAL REPAYMENTS TO STATE**

The Center returned unused prior year federal funds to the State during the fiscal year as follows:

- \$4,977; CFDA # 84.323, Special Education - State Personnel Development 08

These are not reported as federal expenditures on the schedule as they are repayments of unused funds to the Ohio Department of Education.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the year ended June 30, 2009, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 27, 2010



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Montgomery County Educational Service Center, Montgomery County, (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Montgomery County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2009.

In a separate letter to the Center's management dated January 27, 2010, we reported a matter related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that the Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

We intend this report solely for the information and use of the management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 27, 2010

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2009**

**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 weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control 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: Special Education_Grants to States: CFDA #84.027 Special Education_Preschool Grants: CFDA #84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

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

None







Mary Taylor, CPA  
Auditor of State

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 23, 2010