



Dave Yost • Auditor of State



**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

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# Dave Yost • Auditor of State

Metropolitan Dayton Educational Cooperative Association  
Montgomery County  
225 Linwood Street  
Dayton, Ohio 45405

To the Board of Directors:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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**Dave Yost**  
Auditor of State

January 30, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Metropolitan Dayton Educational Cooperative Association  
Montgomery County  
225 Linwood Street  
Dayton, Ohio 45405

To the Board of Directors:

We have audited the accompanying financial statements of Metropolitan Dayton Educational Cooperative Association, Montgomery County, (the Association), as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion 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 opinion.

As described more fully in Note 1, the Association has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Association's larger (i.e. major) funds separately. While the Association does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Governments to reformat their statements. The Association has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended June 30, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Metropolitan Dayton Educational Cooperative Association as of June 30, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of June 30, 2011 and 2010 and reserves for encumbrances as of June 30, 2010 of Metropolitan Dayton Educational Cooperative Association, Montgomery County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Metropolitan Dayton Educational Cooperative Association adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, on our consideration of the Association'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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State

January 30, 2012



**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Intergovernmental Revenue	\$498,817	\$695,966	\$1,194,783
Charges for Services	2,027,327		2,027,327
Earnings on Investments	4,604		4,604
Total Cash Receipts	<u>2,530,748</u>	<u>695,966</u>	<u>3,226,714</u>
<b>Cash Disbursements:</b>			
<b>Operating:</b>			
Personal Services	1,754,002		1,754,002
Contractual Services	526,203		526,203
Intergovernmental Expenses		743,404	743,404
Supplies and Materials	305,158		305,158
Capital Outlay	136,444		136,444
Other	21,595		21,595
Total Cash Disbursements	<u>2,743,402</u>	<u>743,404</u>	<u>3,486,806</u>
Total Receipts (Under) Disbursements	<u>(212,654)</u>	<u>(47,438)</u>	<u>(260,092)</u>
Fund Cash Balances, July 1	<u>2,266,264</u>	<u>47,438</u>	<u>2,313,702</u>
<b>Fund Cash Balances, June 30</b>			
Assigned	166,737		166,737
Unassigned	1,886,873		1,886,873
Fund Cash Balances, June 30	<u>\$2,053,610</u>	<u>\$0</u>	<u>\$2,053,610</u>

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

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Intergovernmental Revenue	\$556,470	\$328,405	\$884,875
Charges for Services	1,911,839		1,911,839
Earnings on Investments	10,553		10,553
Total Cash Receipts	<u>2,478,862</u>	<u>328,405</u>	<u>2,807,267</u>
<b>Cash Disbursements:</b>			
<b>Operating:</b>			
Personal Services	1,674,019		1,674,019
Contractual Services	681,392		681,392
Intergovernmental Expenses		588,670	588,670
Supplies and Materials	291,088		291,088
Capital Outlay	131,345		131,345
Other	28,380		28,380
Total Cash Disbursements	<u>2,806,224</u>	<u>588,670</u>	<u>3,394,894</u>
Total Receipts (Under) Disbursements	<u>(327,362)</u>	<u>(260,265)</u>	<u>(587,627)</u>
Fund Cash Balances, July 1	<u>2,593,626</u>	<u>307,703</u>	<u>2,901,329</u>
Fund Cash Balances, June 30	<u>\$2,266,264</u>	<u>\$47,438</u>	<u>\$2,313,702</u>
Reserve for Encumbrances, June 30	<u>\$265,095</u>	<u>\$0</u>	<u>\$265,095</u>

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

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Metropolitan Dayton Educational Cooperative Association, Montgomery County, (the Association), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Association operates under a Board of Directors consisting of six members elected from a general assembly for three year terms, and the superintendent from the fiscal agent school district for a perpetual term.

The Association provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. The Association serves over ninety schools in Darke, Greene, Miami, and Montgomery counties.

The Association's management believes these financial statements present all activities for which the Association is financially accountable.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

The Association's cash is held and invested by the Montgomery County Educational Service Center (the Center), who acts as custodian for Association monies. The Association's assets are held in the Center's cash and investment pool.

**D. Fund Accounting**

The Association uses fund accounting to segregate cash and investments that are restricted as to use. The Association classifies its funds into the following fund types:

**1. General Fund**

The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.

**2. Special Revenue Fund**

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt services or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a specific special revenue fund.

**Telecommunications Act Grant Fund** – This fund accounts for revenues and expenditures for e-rate money received by the Association.

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)**

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

**E. Budgetary Process**

1. The Association's Constitution requires the membership assembly to approve an annual budget. This budget is to be developed and controlled by the Association's Operating Committee. The budget includes an estimate of the amounts expected to be received and expended by the Association during the fiscal year.

**2. Encumbrances**

The Association reserves (encumber) appropriations when commitments are made. These are reported as budgetary expenditures in Note 2. Encumbrances outstanding at year-end are carried over, and need not be re-appropriated.

A summary of 2011 and 2010 budgetary activity appears in Note 2.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Association's basis of accounting used by the Association.

**H. Fund Balance**

For Fiscal Year 2011, the Association adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

For June 30, 2011 fund balance is divided into five classifications based primarily on the extent to which the Association must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Non-spendable**

The Association classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Trustees can *commit* amounts via formal action (resolution). The Association must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)**

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

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Association Trustees or an Association official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Association applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**2. BUDGETARY ACTIVITY**

Budgetary activity for the years ending June 30, 2011 and 2010 follows:

<b>2011 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$2,591,607	\$2,530,748	(\$60,859)

<b>2011 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$3,189,437	\$2,910,139	\$279,298

<b>2010 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$2,569,138	\$2,478,862	(\$90,276)

<b>2010 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$3,059,686	\$3,071,319	(\$11,633)

The Board approved a budget only for the General Fund for fiscal years 2011 and 2010.

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)**

**3. RETIREMENT SYSTEMS**

The Association's full-time employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer defined benefit plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal years 2011 and 2010, members of SERS contributed 10% of their gross salaries. The Association contributed an amount equal to 14% of participants' gross salaries. The Association has paid all contributions required through June 30, 2011.

**4. RISK MANAGEMENT**

The Association has obtained commercial comprehensive property and general liability insurance. In addition, the Association provides health insurance and dental and vision coverage to full-time employees of the Association through a private carrier.



# Dave Yost • Auditor of State

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

Metropolitan Dayton Educational Cooperative Association  
Montgomery County  
225 Linwood Street  
Dayton, Ohio 45405

To the Board of Directors:

We have audited the financial statements of the Metropolitan Dayton Educational Cooperative Association, Montgomery County, (the Association) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 30, 2012, wherein we noted the Association followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted Governmental Accounting Standards Board Statement No. 54. 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 Association's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Association's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Association'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 and the Board of Directors and others within the Association. We intend it for no one other than these specified parties.

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**Dave Yost**  
Auditor of State

January 30, 2012



**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011 AND 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-001**

**MATERIAL WEAKNESS**

Governmental Accounting Standards Board (GASB) Codification Section 1800.142 requires that fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Some governments may not have policies or procedures that are comparable to those policies that underlie the classifications discussed in paragraphs .147-.153 and therefore would not report amounts in all possible fund balance classifications.

GASB 1800.150 states amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph .158. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

In addition, GASB 1800.154 states unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance, as discussed in paragraph .156.

The Association failed to properly report the assigned fund balances and unassigned balances in the amounts of \$166,737 and \$1,886,873 respectively at June 30, 2011 which represents 100% of the general fund balance.

In addition to the aforementioned variance, the Associations failed to properly record the DASL license fees in the amount of \$254,885 as supplies and materials instead of contractual services. This represents 9% of total general fund expenditures

This resulted in the understatement of assigned and unassigned fund balance, and additionally it resulted in the understatement of supplies and materials and the overstatement of contractual service expenditures.

Audit adjustments were made to correct the financial statements.

Failure to properly present all expenditures leads to financial statement errors and audit adjustments and could lead to erroneous financial decisions. The Association should develop internal control procedures to provide for accurate and consistent reporting of financial activity.

**Official's Response:**

In Fiscal Year 2011 the Montgomery County Educational Service Center (fiscal agent for the Association) performed changes in account coding to ensure that all of the Center's accounts were consistent.

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# Dave Yost • Auditor of State

**METROPOLITAN DAYTON EDUCATIONAL COOPERATIVE ASSOCIATION**

**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  
MARCH 8, 2012**