



Dave Yost • Auditor of State

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

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Dave Yost • 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, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service 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, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, as of June 30, 2011, 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.

As described in Note 16, during fiscal year 2011, the Educational Service Center adopted the provisions of 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 31, 2012, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the 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. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 31, 2012

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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, 2011. 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 2011 are as follows:

- The Educational Service Center increased all employees' base salary 1.1 percent. The administrative staff retired a long term assistant superintendent but hired a new assistant Treasurer position.
- The Educational Service Center was awarded additional grants through the United States Air Force and Mentoring AmeriCorps.
- A roofing project was started in fiscal year 2011 to be completed in fiscal year 2012.

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.

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 2011". 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

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 6. 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 funds are the General Fund and Title VI-B Special Revenue Fund.

Governmental Funds

Most 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.

Fiduciary Funds

The Educational Service Center's only fiduciary funds are agency funds. The Educational Service Center's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. The Educational Service Center is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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 2011 compared to fiscal year 2010.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

**Table 1
Net Assets**

	2011	2010	Change
Assets:			
Current and Other Assets	\$17,806,694	\$18,171,760	(\$365,066)
Capital Assets, Net	6,152,791	6,332,803	(180,012)
Total Assets	<u>23,959,485</u>	<u>24,504,563</u>	<u>(545,078)</u>
Liabilities:			
Other Liabilities	4,000,862	3,951,185	49,677
Long-Term Liabilities	926,701	1,107,569	(180,868)
Total Liabilities	<u>4,927,563</u>	<u>5,058,754</u>	<u>(131,191)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	5,904,028	5,861,744	42,284
Restricted	1,557,990	1,556,568	1,422
Unrestricted	11,569,904	12,027,497	(457,593)
Total Net Assets	<u>\$19,031,922</u>	<u>\$19,445,809</u>	<u>(\$413,887)</u>

Total assets of governmental activities decreased \$545,078. Most of the decrease was in current and other assets as expenditures increased due to increases in the base rate for employees salaries. This lowered cash balances. Other liabilities increased due to payables from a roofing project and a base rate increase of 1.1 percent for employees. Also, long-term liabilities decreased due to debt payments made during the fiscal year. No new debt was entered into for fiscal year 2011.

In total, net assets declined \$413,887. Unrestricted net assets had a large decrease. Expenditures increased due to base salary increases. Invested in capital assets, net of related debt improved largely due to the decrease in long-term debt.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2011 and 2010.

**Table 2
Changes in Net Assets**

	2011	2010	Change
Revenues:			
Program Revenues:			
Charges for Services	\$25,555,448	\$25,209,970	\$345,478
Operating Grants and Contributions	3,974,134	3,647,563	326,571
Total Program Revenues	<u>29,529,582</u>	<u>28,857,533</u>	<u>672,049</u>
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs	1,705,219	1,687,894	17,325
Investment Earnings	26,652	44,190	(17,538)
Gifts and Donations	15,715	5,646	10,069
Miscellaneous	66,775	24,876	41,899
Total General Revenues	<u>1,814,361</u>	<u>1,762,606</u>	<u>51,755</u>
Total Revenues	<u>31,343,943</u>	<u>30,620,139</u>	<u>723,804</u>

(Continued)

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

**Table 2
Changes in Net Assets
(Continued)**

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Program Expenses:			
Instruction:			
Special	6,601,633	6,528,266	73,367
Support Services:			
Pupils	8,528,556	7,951,590	576,966
Instructional Staff	9,516,257	9,775,411	(259,154)
Board of Education	93,435	78,837	14,598
Administration	2,173,457	2,113,741	59,716
Fiscal	660,424	599,560	60,864
Business	58,371	63,685	(5,314)
Operation and Maintenance of Plant	1,765,549	1,698,180	67,369
Pupil Transportation	1,130,084	1,053,534	76,550
Central	961,406	1,174,860	(213,454)
Operation of Non-Instructional Services	255,747	250,697	5,050
Interest and Fiscal Charges	12,911	22,120	(9,209)
Total Expenses	<u>31,757,830</u>	<u>31,310,481</u>	<u>\$447,349</u>
Change in Net Assets	(413,887)	(690,342)	
Net Assets at Beginning of Year	<u>19,445,809</u>	<u>20,136,151</u>	
Net Assets at End of Year	<u>\$19,031,922</u>	<u>\$19,445,809</u>	

Governmental Activities

In total, revenues increased due to additional grants received from the United States Air Force and Mentoring AmeriCorps as well as an increase in service to the local and city school districts.

Expenses increased \$447,349 from the previous fiscal year. The Educational Service Center had an increase in wages from the employees' base rate by 1.1 percent. Also, expenses increased due to the additional services to be provided through the new grants received during fiscal year 2011.

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 11. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$31,377,403 and expenditures of \$31,776,844.

The net change in fund balance for the fiscal year in the General Fund was a decrease of \$503,278. The net change in fund balance in the General Fund was caused by an increase in expenditures mainly due to the start of the roofing project and the base salary increases of 1.1 percent.

The net change in fund balance in the Title VI-B Fund increased by \$101,645 due to expenditures being monitored closely.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2011 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal year 2011, the Educational Service Center had \$6,152,791 invested in land, construction in progress, buildings and improvements, furniture and equipment, and vehicles.

Table 3 shows fiscal year 2011 balances compared to fiscal year 2010.

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

	<u>2011</u>	<u>2010</u>
Land	\$ 182,098	\$ 182,098
Construction in Progress	31,477	
Buildings and Improvements	5,030,248	5,147,897
Furniture and Equipment	405,655	450,062
Vehicles	503,313	552,746
Totals	<u>\$6,152,791</u>	<u>\$6,332,803</u>

Overall capital assets decreased \$180,012 from fiscal year 2010 as deleted assets and depreciation expense was more than additions. For more information on capital assets, refer to Note 6 of the basic financial statements.

Debt Administration

At June 30, 2011, the Educational Service Center had \$248,763 in total outstanding debt consisting 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 buildings to use 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. These positive outcomes include 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, Dayton, Ohio 45402 or email at mg_treas@mdeca.org.

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$15,646,513
Accrued Interest Receivable	4,181
Intergovernmental Receivable	2,129,552
Materials and Supplies Inventory	12,028
Prepaid Items	14,420
Non-Depreciable Capital Assets	213,575
Depreciable Capital Assets	5,939,216
Total Assets	<u>23,959,485</u>
 Liabilities:	
Accounts Payable	168,732
Accrued Wages and Benefits Payable	3,188,993
Contracts Payable	22,663
Retainage Payable	8,814
Matured Compensated Absences Payable	52,792
Accrued Interest Payable	8,042
Intergovernmental Payable	550,826
Long-Term Liabilities:	
Due Within One Year	394,957
Due in More Than One Year	531,744
Total Liabilities	<u>4,927,563</u>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,904,028
Restricted for:	
Transportation	1,194,728
Other Purposes	363,262
Unrestricted	11,569,904
Total Net Assets	<u><u>\$19,031,922</u></u>

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, 2011**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:				
Instruction:				
Special	\$6,601,633	\$5,958,729	\$422,435	(\$220,469)
Support Services:				
Pupils	8,528,556	7,699,952	4,647	(823,957)
Instructional Staff	9,516,257	6,232,719	2,545,349	(738,189)
Board of Education	93,435	84,548		(8,887)
Administration	2,173,457	1,692,318	295,849	(185,290)
Fiscal	660,424	427,809	178,571	(54,044)
Business	58,371	52,376		(5,995)
Operation and Maintenance of Plant	1,765,549	1,646,523	232,460	113,434
Pupil Transportation	1,130,084	842,300	200,077	(87,707)
Central	961,406	871,562		(89,844)
Operation and Non-Instructional Services	255,747	46,612	94,746	(114,389)
Interest and Fiscal Charges	12,911			(12,911)
Total Governmental Activities	<u>\$31,757,830</u>	<u>\$25,555,448</u>	<u>\$3,974,134</u>	<u>(2,228,248)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				1,705,219
Investment Earnings				26,652
Gifts and Donations				15,715
Miscellaneous				66,775
Total General Revenues				<u>1,814,361</u>
 Change in Net Assets				 (413,887)
 Net Assets at Beginning of Year				 <u>19,445,809</u>
Net Assets at End of Year				<u>\$19,031,922</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$13,714,714	\$376,317	\$1,555,448	\$15,646,479
Accrued Interest Receivable	4,181			4,181
Intergovernmental Receivable	1,412,310	389,591	327,651	2,129,552
Interfund Receivable	674,344			674,344
Materials and Supplies Inventory	12,028			12,028
Prepaid Items	13,975		445	14,420
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	34			34
Total Assets	<u>15,831,586</u>	<u>765,908</u>	<u>1,883,544</u>	<u>18,481,038</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	124,033	17,280	27,419	168,732
Contracts Payable	22,663			22,663
Retainage Payable	8,814			8,814
Accrued Wages and Benefits Payable	2,951,632	146,457	90,904	3,188,993
Matured Compensated Absences Payable	52,792			52,792
Interfund Payable		287,273	387,071	674,344
Intergovernmental Payable	520,506	18,118	12,202	550,826
Deferred Revenue	214,750	177,205	84,985	476,940
Total Liabilities	<u>3,895,190</u>	<u>646,333</u>	<u>602,581</u>	<u>5,144,104</u>
Fund Balances:				
Nonspendable	26,037		445	26,482
Restricted		119,575	1,302,855	1,422,430
Assigned	787,811			787,811
Unassigned	11,122,548		(22,337)	11,100,211
Total Fund Balances	<u>11,936,396</u>	<u>119,575</u>	<u>1,280,963</u>	<u>13,336,934</u>
Total Liabilities and Fund Balances	<u>\$15,831,586</u>	<u>\$765,908</u>	<u>\$1,883,544</u>	<u>\$18,481,038</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

Total Governmental Fund Balances	\$13,336,934
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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	31,477	
Buildings and Improvements	5,887,564	
Furniture and Equipment	3,638,706	
Vehicles	828,373	
Accumulated Depreciation	<u>(4,415,427)</u>	
		6,152,791

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

Tuition and Fees	19,618	
Intergovernmental Grants	261,238	
Charges for Services	194,634	
Investment Earnings	<u>1,450</u>	
		476,940

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	(8,042)	
Compensated Absences Payable	(677,938)	
Capital Lease Payable	(217,903)	
Forgivable Loan	<u>(30,860)</u>	
		<u>(934,743)</u>

Net Assets of Governmental Activities	<u><u>\$19,031,922</u></u>
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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, 2011**

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$2,127,654	\$2,083,691	\$1,599,064	\$5,810,409
Investment Earnings	27,163			27,163
Tuition and Fees	17,456,291		734,606	18,190,897
Rent	246,070			246,070
Gifts and Donations	14,000			14,000
Charges for Services	6,643,600		378,489	7,022,089
Miscellaneous	66,775			66,775
Total Revenues	<u>26,581,553</u>	<u>2,083,691</u>	<u>2,712,159</u>	<u>31,377,403</u>
Expenditures:				
Current:				
Instruction:				
Special	6,550,554			6,550,554
Support Services:				
Pupils	8,485,173		4,082	8,489,255
Instructional Staff	6,650,212	1,650,703	1,129,892	9,430,807
Board of Education	93,435			93,435
Administration	1,862,498	8,175	277,369	2,148,042
Fiscal	460,143	127,174	68,921	656,238
Business	57,881			57,881
Operation and Maintenance of Plant	1,533,986	195,994	60,193	1,790,173
Pupil Transportation	26,647		1,055,511	1,082,158
Central	961,771			961,771
Operation of Non-Instructional Services	34,540		222,848	257,388
Capital Outlay	31,477			31,477
Debt Service:				
Principal Retirement	208,559			208,559
Interest and Fiscal Charges	19,106			19,106
Total Expenditures	<u>26,975,982</u>	<u>1,982,046</u>	<u>2,818,816</u>	<u>31,776,844</u>
Excess of Revenues Under Expenditures	(394,429)	101,645	(106,657)	(399,441)
Other Financing Sources (Uses):				
Transfers In			108,849	108,849
Transfers Out	(108,849)			(108,849)
Proceeds from Sale of Capital Assets			25,700	25,700
Total Other Financing Sources (Uses)	<u>(108,849)</u>		<u>134,549</u>	<u>25,700</u>
Net Change in Fund Balances	(503,278)	101,645	27,892	(373,741)
Fund Balances at Beginning of Year	12,439,674	17,930	1,253,071	13,710,675
Fund Balances at End of Year	<u>\$11,936,396</u>	<u>\$119,575</u>	<u>\$1,280,963</u>	<u>\$13,336,934</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, 2011**

Net Change in Governmental Fund Balances - Total Governmental Funds (\$373,741)

Amounts reported in governmental activities in the statement of activities are different because:

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	\$134,396	
Depreciation Expense	<u>(254,926)</u>	
Excess of depreciation expense over capital outlay		(120,530)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital assets account in the statement of net assets and offset against the proceeds resulting in a loss on the sale of capital assets in the statement of activities.

Proceeds from Sale of Capital Assets	(25,700)	
Loss on Disposal of Capital Assets	<u>(33,782)</u>	
		(59,482)

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		208,559
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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	13,737	
Decrease of Accrued Interest on Forgivable Debt	<u>698</u>	
		14,435

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	19,618	
Intergovernmental	(143,776)	
Charges for Services	76,774	
Investment Earnings	<u>(511)</u>	
		(47,895)

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		6,195
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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:

Increase in Compensated Absences Payable		<u>(41,428)</u>
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Change in net assets of governmental activities		<u><u>(\$413,887)</u></u>
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See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,145,342
Accrued Interest Receivable	573
Intergovernmental Receivable	<u>53,369</u>
Total Assets	<u><u>\$2,199,284</u></u>
Liabilities:	
Undistributed Monies	<u><u>\$2,199,284</u></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, 2011**

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 the Miami Valley. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Montgomery County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center has 129 classified staff employees, 211 certified teaching personnel, and six 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, 2011
(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. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered 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, 2011
(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. 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 are the Educational Service Center's major governmental funds:

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.

Title VI-B Fund - The Title VI-B Fund accounts for restricted federal special education grants that assist in providing an appropriate public education to all children with disabilities.

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 as well as a flexible spending and flower account for employees.

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, 2011
(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 60 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, 2011
(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 2011, 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 2011 amounted to \$27,163, which includes \$5,177 assigned from other Educational Service Center funds.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$5,000. 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>
Buildings 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 20 years of current service with the Educational Service Center.

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.

M. 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.

N. 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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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 not required to prepare a budget.

P. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as 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.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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;
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) above;
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.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 \$33.36 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 Educational Service Center.

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

5. RECEIVABLES

Receivables at June 30, 2011, 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:

	Amounts
Governmental Activities:	
Secondary Transition Specialist	\$ 60,621
Americorps	15,991
State Support	67,136
E Learning	3,600
Early Learning	14,175
State Personnel Development	58,511
Tuition and Student Fees	488,559
Title VI-B	389,591
Title I	10,175
STEM	96,490
Rent	330
Customer Sales and Services	924,373
Total Intergovernmental Receivables	\$2,129,552

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deductions	Balance 6/30/11
Governmental Activities:				
Capital Assets, not Being Depreciated:				
Land	\$ 182,098			\$ 182,098
Construction in Progress		\$ 31,477		31,477
Total Capital Assets, not Being Depreciated	<u>182,098</u>	<u>31,477</u>		<u>213,575</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	5,887,564			5,887,564
Furniture and Equipment	3,671,692	37,265	(\$70,251)	3,638,706
Vehicles	1,346,559	65,654	(583,840)	828,373
Total Capital Assets, Being Depreciated	<u>10,905,815</u>	<u>102,919</u>	<u>(654,091)</u>	<u>10,354,643</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(739,667)	(117,649)		(857,316)
Furniture and Equipment	(3,221,630)	(80,575)	69,154	(3,233,051)
Vehicles	(793,813)	(56,702)	525,455	(325,060)
Total Accumulated Depreciation	<u>(4,755,110)</u>	<u>(254,926) *</u>	<u>594,609</u>	<u>(4,415,427)</u>
Capital Assets, Being Depreciated, Net	<u>6,150,705</u>	<u>(152,007)</u>	<u>(59,482)</u>	<u>5,939,216</u>
Governmental Activities Capital Assets, Net	<u>\$6,332,803</u>	<u>(\$120,530)</u>	<u>(\$59,482)</u>	<u>\$6,152,791</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$ 25,023
Support Services:	
Pupils	15,163
Instructional Staff	77,213
Administration	17,711
Fiscal	5,197
Business	490
Operation and Maintenance of Plant	61,560
Pupil Transportation	46,286
Central	4,886
Operation of Non-Instructional Services	1,397
Total Depreciation Expense	<u>\$254,926</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 2011, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool (See Note 14). Each individual participant 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. The Educational Service Center contracts for property, fleet, and liability insurance with OSP.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. RISK MANAGEMENT (Continued)

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.

B. Workers' Compensation

For fiscal year 2011, 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 Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2011, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (Note 14). The Educational Service Center pays monthly premiums to the Trust for employee medical 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 participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$422,384, \$457,076 and \$428,532, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 system. 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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 multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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.

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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan was \$1,726,279 for the fiscal year ended June 30, 2011, \$2,095,029 for the fiscal year ended June 30, 2010, and \$1,677,252 for the fiscal year ended June 30, 2009. For fiscal year 2011, 83.77 percent has been contributed for the DB plan and Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$89,326 made by the Educational Service Center and \$63,804 made by the plan members. In addition, member contributions of \$39,495 and Educational Service Center contributions of \$55,292 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

9. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System 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 obligation 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For fiscal year 2011, 1.43 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 fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the Educational Service Center paid \$95,982 in surcharge.

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, 2011, 2010, and 2009 were \$145,419, \$110,727, and \$325,748, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$27,181, \$27,181, and \$31,114 respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$132,791, \$161,156, and \$129,019 respectively. For fiscal year 2011, 83.77 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 12 month employees earn 10 to 23 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 personal 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 10 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 Sun Life Assurance Company of Canada. Dental insurance is provided through Dental Care Plus.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. OTHER EMPLOYEE BENEFITS (Continued)

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.

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal 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 \$1,000,000. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2011 totaled \$208,559.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value June 30, 2011
Asset:			
Building	\$1,000,000	(\$93,333)	\$906,667

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, 2011.

Fiscal Year	Total Payments
2012	\$227,665
Less: Amount Representing Interest	(9,762)
Present Value of Minimum Lease Payments	\$217,903

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2011 were as follows:

	Amount Outstanding 6/30/10	Additions	Deletions	Amount Outstanding 6/30/11	Due in One Year
Governmental Activities:					
Compensated Absences	\$ 636,510	\$83,754	\$ 42,326	\$677,938	\$162,218
Capital Leases	426,462		208,559	217,903	217,903
Forgivable Loan 2007, 8%	44,597		13,737	30,860	14,836
Total Governmental Activities Long-Term Obligations	\$1,107,569	\$83,754	\$264,622	\$926,701	\$394,957

On November 10, 2006, the Educational Service Center 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 Educational Service Center 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 2011, the City of Moraine forgave \$13,737 of the principal.

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

Principal requirements to retire general obligation debt at June 30, 2011, are as follows:

Forgivable Debt			
Fiscal year Ending June 30,	Principal	Interest	Total
2012	\$14,836	\$2,469	\$17,305
2013	16,024	1,282	17,306
Total	\$30,860	\$3,751	\$34,611

13. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The General Fund had an interfund receivable at June 30, 2011, of \$674,344 while the other Governmental Funds had an interfund payable of \$674,344, including an interfund payable of \$287,273 from Title VI-B. 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 \$108,849. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except 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 \$25,633 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 and educational service centers in 12 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. Title to any and all equipment, furniture, and supplies purchased by SOEPC is held in trust for the member districts. 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. Payments to SOEPC are made from the General Fund. During fiscal year 2011, the Educational Service Center paid \$3,175 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 11 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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.

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. 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 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, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

15. ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2011:

	<u>Deficit Fund Balances</u>
Food Service	\$13,629
Miscellaneous Federal Grants	8,708

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2012. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

16. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in the any changes to fund balances at June 30, 2010, as previously reported.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

17. FUND BALANCES

Fund balance is classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Title VI-B	Non-major Governmental Funds	Total
Non-spendable:				
Unclaimed Funds	\$ 34			\$ 34
Inventory	12,028			12,028
Pre-paids	13,975		\$ 445	14,420
Total Non-spendable	<u>26,037</u>		<u>445</u>	<u>26,482</u>
Restricted for:				
Scholarship			5,267	5,267
Special Use			49,347	49,347
Regional Transportation			1,196,455	1,196,455
Miami Valley Teacher and Leader			34,541	34,541
Miscellaneous State Grants			3,002	3,002
Title VI-B		\$119,575		119,575
Title I			7,289	7,289
Title I School Improvement			6,954	6,954
Total Restricted		<u>119,575</u>	<u>1,302,855</u>	<u>1,422,430</u>
Assigned to:				
Other Purposes	787,811			787,811
Unassigned (Deficit)	11,122,548		(22,337)	11,100,211
Total Fund Balances	<u>\$11,936,396</u>	<u>\$119,575</u>	<u>\$1,280,963</u>	<u>\$13,336,934</u>

18. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2011.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
U.S. Department of Agriculture:			
Passed through Ohio Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$34,071	\$34,071
National School Lunch Program	10.555	58,210	58,210
Total Child Nutrition Cluster		<u>92,281</u>	<u>92,281</u>
Total U.S. Department of Agriculture		<u>92,281</u>	<u>92,281</u>
U.S. Department of Defense:			
Direct			
Air Force Defense Research Sciences Program	12.800	231,187	320,281
Total U.S. Department of Defense		<u>231,187</u>	<u>320,281</u>
U.S. Department of Education:			
Passed through Ohio Department of Education			
Title I Cluster			
Title I Grants to Local Educational Agencies	84.010	1,847	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	25,805	26,132
Total Title I Cluster		<u>27,652</u>	<u>26,132</u>
Special Education Cluster			
Special Education - Grants to States	84.027	2,057,641	1,965,207
Special Education - Preschool Grants	84.173	36,227	40,208
Total Special Education Cluster		<u>2,093,868</u>	<u>2,005,415</u>
Rehabilitation Services Demonstration and Training Programs	84.235	145,019	177,330
Special Education - State Personnel Development	84.323	10,661	17,127
Improving Teacher Quality State Grants	84.367	230,000	230,000
Total U.S. Department of Education		<u>2,507,200</u>	<u>2,456,004</u>
Corporation for National and Community Service:			
Passed through Ohio Community Service Council			
ARRA - AmeriCorps, Recovery Act	94.006	29,944	32,966
Total Corporation for National and Community Service		<u>29,944</u>	<u>32,966</u>
Total Federal Financial Assistance		<u>\$2,860,612</u>	<u>\$2,901,532</u>

See accompanying notes to the Federal Awards Receipts and Expenditures Schedule.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The Educational Service Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Educational Service Center assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Educational Service Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Educational Service Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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*

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, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, (the Educational Service Center) as of and for the year ended June 30, 2011, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 31, 2012 wherein we noted that the Educational Service Center adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 Educational Service Center'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 Educational Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over financial reporting.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Educational Service Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service 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, federal awarding agencies and pass-through entities, and others within the Educational Service Center. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 31, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of the Montgomery County Educational Service Center, Montgomery County (the Educational Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect Montgomery County Educational Service's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 Educational Service Center's compliance with these 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 Educational Service Center's compliance with these requirements.

In our opinion, the Montgomery County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The Educational Service 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 Educational Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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 management, the Board of Education, federal awarding agencies and pass-through entities, and others within the Educational Service Center. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 31, 2012

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education Grants to States: CFDA #84.027 Special Education Preschool Grants: CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	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

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MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2012**