



**Auditor of State  
Betty Montgomery**



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying 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 Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Center, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

**Betty Montgomery**  
Auditor of State

March 1, 2005

# MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (unaudited)

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The discussion and analysis of the Montgomery County Educational Service Center financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. 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 notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

#### *Overall:*

- Total net assets increased \$1.5 million, which represents a 16 percent increase from fiscal year 2003. Increase is due primarily to an increase in charges for services revenue and a decrease in related expenditures.
- Total assets of governmental activities increased by \$3.8 million, attributed almost exclusively to the \$1.1 million increase in pooled cash and investments, \$1.4 million increase in intergovernmental receivables and \$1.3 million increase in capital assets. Increase in pooled cash is result of an increase in charges for services revenue and a decrease in related expenditures. Increase in intergovernmental receivables is due to timing on year end invoices. Increase in capital assets is result of the Educational Service Center purchasing a building for additional classroom space.
- General revenues accounted for \$1.9 million or 6 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$30.9 million or 94 percent of total revenues of \$32.8 million.
- Of the Educational Service Center's \$31.3 million in expenses, 99 percent was offset by program specific charges for services. General revenues were used for expenditures not covered by charges for services.

### **Using this Annual Report**

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 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 Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregated view of the Educational Service Center's finances and a longer-term view of those statements. 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. In the case of the Educational Service Center, the General Fund, Scholarship Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are reported individually on fund financial statements as major funds.

# MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(unaudited)

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

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

While this document contains a 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 2004?" The Statement of Net Assets and the Statement of Activities answers 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 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, some not. Non-financial factors include the Educational Service Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant and pupil transportation. The Educational Service Center does not have any business-type activities.

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

### *Fund Financial Statements*

The analysis of the Educational Service Center's General Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund, the major funds, begins on page 11. Fund financial reports provide detailed information about the General Fund, Scholarship Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the Educational Service Center's most significant funds, and therefore only the General Fund, Scholarship Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are presented separate from the other governmental funds.

### Governmental Funds

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



# MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Montgomery County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(unaudited)

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## 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 2004 compared to 2003:

TABLE 1  
NET ASSETS (in 000's)

	<u>2004</u>	<u>2003</u>
<i>Assets</i>		
Current and Other Assets	\$ 13,386	\$ 10,863
Capital Assets	<u>3,078</u>	<u>1,779</u>
Total Assets	<u>16,464</u>	<u>12,642</u>
<i>Liabilities</i>		
Long-Term Liabilities	1,562	415
Other Liabilities	<u>4,159</u>	<u>3,002</u>
Total Liabilities	<u>5,721</u>	<u>3,417</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	1,978	1,779
Restricted	537	1,213
Unrestricted	<u>8,228</u>	<u>6,233</u>
Total Net Assets	\$ <u>10,743</u>	\$ <u>9,225</u>

The amount by which the Educational Service Center's assets exceeded its liabilities is called net assets. As of June 30, 2004, the Educational Service Center's net assets were \$10.7 million. Of that amount, approximately \$2.0 million was invested in capital assets, net of debt related to those assets. Another \$.5 million was subject to external restrictions upon its use. The remaining \$8.2 million was unrestricted and available for future use as directed by the Board and the Educational Service Center's Administration.

Table 2 shows the changes in net assets for fiscal year 2004.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Montgomery County, Ohio

Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2004  
 (unaudited)

TABLE 2  
 CHANGE IN NET ASSETS (in 000's)

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 22,394	\$ 23,166
Operating Grants and Contributions	8,531	4,779
General Revenues:		
Investment Earnings	144	118
Other	<u>1,828</u>	<u>1,015</u>
Total Revenues	<u>32,898</u>	<u>29,078</u>
<b>Program Expenses</b>		
Instruction	10,355	9,725
Support Services:		
Pupils and Instructional Staff	16,352	13,549
Board of Education, Administration, Fiscal and Business	2,987	3,054
Plant Operation and Maintenance	91	727
Pupil Transportation	504	525
Central	1,012	910
Operation of non-instructional services	42	-
Unallocated Depreciation	38	39
Interest and Fiscal Charges	<u>-</u>	<u>16</u>
Total Expenses	\$ <u>31,381</u>	<u>28,545</u>
Increase in Net Assets	\$ <u>1,517</u>	\$ <u>533</u>

**Governmental Activities**

The Educational Service Center is extremely dependent upon charges for services received from local school districts. Approximately 70 percent of the Educational Service Center's total revenue was received from local school districts.

Instruction comprises 33 percent of the Educational Service Center's expenses for fiscal year 2004. Support services expenses make up 67 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted revenue sources.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Montgomery County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(unaudited)

Table 3  
Total and Cost of Program Services  
Governmental Activities  
(in 000's)

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 10,355	\$ (954)	\$ 9,725	\$ (1,455)
Support Services:				
Pupils and Instructional Staff	16,352	(525)	13,549	931
Board of Education, Administration, Fiscal and Business	2,987	(581)	3,054	202
Plant Operation and Maintenance	91	(19)	727	(91)
Pupil Transportation	504	(336)	525	(44)
Central	1,012	(213)	910	(132)
Operation of Non-Instructional Services	42	2,212	-	44
Unallocated Depreciation	38	(38)	39	(39)
Interest and Fiscal Charges	-	-	16	(16)
<b>Total Expenses</b>	<b>\$ 31,381</b>	<b>\$ (454)</b>	<b>\$ 28,545</b>	<b>\$ (600)</b>

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the Educational Service Center.

Plant operation and maintenance activities involve keeping the grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school and related activities.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes services provided to the community at-large.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Montgomery County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(unaudited)

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Unallocated depreciation represents current period depreciation charges associated with capital assets that are utilized by several different functions

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the Educational Service Center.

**The Educational Service Center's Funds**

Information about the Educational Service Center's major funds, starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$33.6 million and expenditures of \$32.6 million. The net change in fund balance was most significant in the General Fund, a increase of \$2.8 million and the Miscellaneous State Grants Fund, a decrease of \$.8 million. Unreserved fund balance went from \$ 6.6 million in 2003 to \$7.6 million in 2004.

**General Fund Budgeting Highlights**

The Educational Service Center's budget is prepared based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. Budgetary comparisons for the General Fund, the only fund for which a budget is approved by the Board, is included with in the statements to show actual budgetary results as compared to original and final budget amounts.

In the General Fund, total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$25.1 million, \$1.1 million above revenues, as well as \$1.4 million above original and final budget estimates.

**Capital Assets**

At the end of fiscal year 2004, the Educational Service Center had \$3.1 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities, net of accumulated depreciation.

Table 5 shows fiscal year 2004 balances compared to 2003:

Table 5  
Capital Assets at June 30 (in 000's)

	2004	2003
Land and Improvements	\$ 182	\$ 182
Building and Improvements	2,648	1,268
Equipment	723	829
Vehicles	23	23
Less: Accumulated Depreciation	<u>(498)</u>	<u>(523)</u>
Totals	<u>\$3,078</u>	<u>\$1,779</u>

# **MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Montgomery County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(unaudited)

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Overall capital assets increased approximately \$1.3 million from fiscal year 2003. Capital asset acquisitions during fiscal year 2004 consisted primarily of the purchase of a building for the purpose of providing space for additional classrooms at a cost of \$1.3 million. Other acquisitions included data processing equipment and miscellaneous furniture and equipment.

## **For the Future**

Legislation has been passed at the State level, which could affect the regionalization of Educational Service Centers. In the future, it may be necessary to purchase school buildings for the purpose of housing special education classes.

## **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 the Treasurer's Office at Montgomery County Educational Service Center, 200 South Keowee, Dayton, Ohio 45402 or call (937) 225-4598.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 10,445,380
Receivables:	
Intergovernmental	2,879,799
Accrued Interest	19,785
Inventory of supplies and materials	25,643
Prepaid items	15,266
Depreciable capital assets, net	2,896,384
Non-depreciable capital assets	<u>182,098</u>
Total Assets	<u>16,464,355</u>
Liabilities:	
Accounts payable	776,014
Accrued wages and benefits payable	2,409,352
Intergovernmental payable	920,788
Compensated absences payable	49,350
Long Term Liabilities:	
Due within one year	256,263
Due in more than one year	<u>1,309,737</u>
Total Liabilities	<u>5,721,504</u>
Net Assets:	
Invested in capital assets, net of related debt	1,978,482
Restricted for:	
Capital projects	71,788
Other purpose	464,753
Unrestricted	<u>8,227,828</u>
Total Net Assets	<u>\$ 10,742,851</u>

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for services & sales	Operating grants and contributions	Total Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 67,742	\$ -	\$ 63,068	\$ (4,674)
Special	10,287,508	7,541,270	1,797,279	(948,959)
Support Services:				
Pupils	6,982,608	4,279,338	2,179,711	(523,559)
Instructional staff	9,369,778	5,318,472	4,049,359	(1,947)
Board of education	71,911	47,517	-	(24,394)
Administration	2,048,644	1,435,332	248,631	(364,681)
Fiscal	650,185	333,245	163,815	(153,125)
Business	214,350	157,315	18,773	(38,262)
Operation and maintenance of plant	91,304	61,144	11,073	(19,087)
Pupil transportation	504,259	167,821	-	(336,438)
Central	1,012,267	799,580	-	(212,687)
Operation of non-instructional services	42,030	2,253,845	-	2,211,815
Unallocated depreciation *	38,500	-	-	(38,500)
Total Governmental Activities	\$ 31,381,086	\$ 22,394,879	\$ 8,531,709	\$ (454,498)

General Revenues:

Investment earnings	\$ 143,767
Miscellaneous	1,828,531

Total General Revenues \$ 1,972,298

Changes in net assets 1,517,800

Net assets at beginning of year 9,225,051

Net assets at end of year \$ 10,742,851

\* - This amount excludes the depreciation that is included in the direct expense of the various functions.

See accompanying notes to the basic financial statements.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General Fund	Scholarship	Miscellaneous State Grants Fund	Miscellaneous Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 7,191,296	\$ 149,361	\$ 931,952	\$ 581,429	\$ 1,591,342	\$ 10,445,380
Receivables:						
Intergovernmental	2,085,547	408,018	284,065	41,407	60,762	2,879,799
Interfund	1,543,914	-	-	-	-	1,543,914
Accrued Interest	19,664	-	-	-	121	19,785
Prepaid Items	13,290	-	-	1,976	-	15,266
Inventory of Supplies and Materials	25,643	-	-	-	-	25,643
<b>Total Assets</b>	<b>\$ 10,879,354</b>	<b>\$ 557,379</b>	<b>\$ 1,216,017</b>	<b>\$ 624,812</b>	<b>\$ 1,652,225</b>	<b>\$ 14,929,787</b>
<b>Liabilities and Fund Balances:</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 63,080	\$ 88,234	538,924	8,335	\$ 77,441	\$ 776,014
Accrued Wages and Benefits	2,281,249	-	95,697	13,875	18,531	2,409,352
Intergovernmental Payable	789,014	4,594	90,661	12,493	24,026	920,788
Interfund Payable	-	428,148	303,761	683,216	128,789	1,543,914
Deferred Revenue	304,765	176,372	-	-	24,101	505,238
Compensated Absences Payable	49,350	-	-	-	-	49,350
<b>Total Liabilities</b>	<b>3,487,458</b>	<b>697,348</b>	<b>1,029,043</b>	<b>717,919</b>	<b>272,888</b>	<b>6,204,656</b>
<b>Fund Balances:</b>						
<b>Reserved for:</b>						
Encumbrances	364,793	13,037	29,041	531,719	133,547	1,072,137
Supplies Inventory	25,643	-	-	-	-	25,643
<b>Unreserved, Undesignated:</b>						
General Fund	7,001,460	-	-	-	-	7,001,460
Scholarship Fund	-	(153,006)	-	-	-	(153,006)
Miscellaneous State Grants Fund	-	-	157,933	-	-	157,933
Miscellaneous Federal Grants Fund	-	-	-	(624,826)	-	(624,826)
Special Revenue Funds	-	-	-	-	1,174,003	1,174,003
Capital Projects Funds	-	-	-	-	71,787	71,787
<b>Total Fund Balances</b>	<b>7,391,896</b>	<b>(139,969)</b>	<b>186,974</b>	<b>(93,107)</b>	<b>1,379,337</b>	<b>8,725,131</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,879,354</b>	<b>\$ 557,379</b>	<b>\$ 1,216,017</b>	<b>\$ 624,812</b>	<b>\$ 1,652,225</b>	<b>\$ 14,929,787</b>

See accompanying notes to the basic financial statement



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

Total Governmental Fund Balances:	\$	8,725,131
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.		3,078,482
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds		505,237
Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(465,999)	
Long - Term notes payable	<u>(1,100,000)</u>	
Total		<u>(1,565,999)</u>
Net Assets of Governmental Activities	\$	<u><u>10,742,851</u></u>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General Fund	Scholarship	Miscellaneous State Grants Fund	Miscellaneous Federal Grants Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Intergovernmental	\$ 4,030,870	\$ 231,646	\$ 3,056,822	\$ 399,486	\$ 1,289,322	\$ 9,008,146
Interest	142,984	-	-	-	783	143,767
Tuition and Fees	1,472,843	-	-	-	-	1,472,843
Charges for Services	20,460,780	222,563	-	-	516,734	21,200,077
Miscellaneous	1,828,529	-	-	-	-	1,828,529
<b>Total Revenues</b>	<b>27,936,006</b>	<b>454,209</b>	<b>3,056,822</b>	<b>399,486</b>	<b>1,806,839</b>	<b>33,653,362</b>
<b>Expenditures:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	-	-	-	-	67,742	67,742
Special	8,999,655	1,265,848	-	-	-	10,265,503
<b>Support Services:</b>						
Pupils	5,191,822	12,592	1,723,575	46,273	-	6,974,262
Instructional Staff	6,117,661	68,596	1,746,855	284,029	1,160,716	9,377,857
Board of Education	57,649	-	-	-	14,262	71,911
Administration	1,741,388	-	232,610	-	71,862	2,045,860
Fiscal	390,304	-	202,873	9,355	44,849	647,381
Business	190,859	-	-	-	21,325	212,184
Plant Operation and Maintenance	74,182	-	6,810	-	10,312	91,304
Pupil Transportation	448,271	-	-	-	55,988	504,259
Central	970,075	-	-	-	24,935	995,010
Non-Instructional Services	1,422,030	-	-	-	-	1,422,030
<b>Total Expenditures</b>	<b>25,603,896</b>	<b>1,347,036</b>	<b>3,912,723</b>	<b>339,657</b>	<b>1,471,991</b>	<b>32,675,303</b>
<b>Excess of Revenues Over(Under)</b>						
Expenditures	2,332,110	(892,827)	(855,901)	59,829	334,848	978,059
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Long-Term Notes	1,100,000	-	-	-	-	1,100,000
Transfers-In	466,570	860,817	-	-	38,463	1,365,850
Transfers-Out	(1,006,637)	-	-	-	(359,213)	(1,365,850)
<b>Total Other Financing Sources (Uses)</b>	<b>559,933</b>	<b>860,817</b>	<b>-</b>	<b>-</b>	<b>(320,750)</b>	<b>1,100,000</b>
<b>Change in Fund Balance</b>	<b>2,892,043</b>	<b>(32,010)</b>	<b>(855,901)</b>	<b>59,829</b>	<b>14,098</b>	<b>2,078,059</b>
<b>Fund Balance at Beginning of Year</b>	<b>4,499,853</b>	<b>(107,959)</b>	<b>1,042,875</b>	<b>(152,936)</b>	<b>1,365,239</b>	<b>6,647,072</b>
<b>Fund Balance at End of Year</b>	<b>\$ 7,391,896</b>	<b>\$ (139,969)</b>	<b>\$ 186,974</b>	<b>\$ (93,107)</b>	<b>\$ 1,379,337</b>	<b>\$ 8,725,131</b>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances - Total Governmental Funds		\$ 2,078,059
Amounts reported for 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. This is the amount by which depreciation exceeded capital outlay in the current period.		
Fixed asset additions	1,396,793	
Current year depreciation	<u>(97,328)</u>	
Total		1,299,465
Issuance of debt is an other financing source in the governmental funds, but the revenue increases long-term liabilities in the statement of net assets		(1,100,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(754,476)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		<u>(5,248)</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 1,517,800</u></u>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDING JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 4,028,626	\$ 4,028,626	\$ 3,778,163	\$ (250,463)
Interest	150,000	150,000	137,502	(12,498)
Tuition and Fees	1,217,806	1,217,806	1,472,843	255,037
Charges for Services	18,309,735	18,309,735	19,042,192	732,457
Miscellaneous	-	-	1,828,479	1,828,479
<b>Total Revenues</b>	<b>23,706,167</b>	<b>23,706,167</b>	<b>26,259,179</b>	<b>2,553,012</b>
<b>Expenditures</b>				
<b>Current:</b>				
<b>Instruction</b>				
<b>Special</b>				
Salaries	6,208,057	6,208,057	5,551,567	656,490
Fringe Benefits	1,789,963	1,789,963	1,676,448	113,515
Contracts	2,005,381	2,005,381	1,383,711	621,670
Supplies	164,800	164,800	155,924	8,876
Capital Outlay	124,000	124,000	38,950	85,050
Fees	-	-	42,709	(42,709)
<b>Total Special Instruction</b>	<b>10,292,201</b>	<b>10,292,201</b>	<b>8,849,309</b>	<b>1,442,892</b>
<b>Support Services</b>				
<b>Pupils</b>				
Salaries	3,144,935	3,144,935	3,769,467	(624,532)
Fringe Benefits	883,909	883,909	1,003,394	(119,485)
Contracts	189,042	189,042	269,756	(80,714)
Supplies	30,000	30,000	23,998	6,002
Capital Outlay	8,611	8,611	10,050	(1,439)
<b>Total Pupils</b>	<b>4,256,497</b>	<b>4,256,497</b>	<b>5,076,665</b>	<b>(820,168)</b>
<b>Instructional Staff</b>				
Salaries	4,056,728	4,056,728	3,823,275	233,453
Fringe Benefits	1,638,542	1,638,542	1,447,656	190,886
Contracts	1,213,455	1,213,455	680,389	533,066
Supplies	25,000	25,000	21,842	3,158
Capital Outlay	10,000	10,000	-	10,000
Fees	45,000	45,000	2,721	42,279
<b>Total Instructional Staff</b>	<b>6,988,725</b>	<b>6,988,725</b>	<b>5,975,883</b>	<b>1,012,842</b>
<b>Board of Education</b>				
Salaries	7,500	7,500	5,825	1,675
Fringe Benefits	1,350	1,350	795	555
Contracts	31,000	31,000	46,874	(15,874)
Supplies	-	-	324	(324)
Fees	14,000	14,000	7,814	6,186
<b>Total Board of Education</b>	<b>53,850</b>	<b>53,850</b>	<b>61,632</b>	<b>(7,782)</b>
<b>Administration</b>				
Salaries	286,230	286,230	1,098,674	(812,444)
Fringe Benefits	97,337	97,337	346,596	(249,259)
Contracts	211,100	211,100	247,286	(36,186)
Supplies	55,700	55,700	54,535	1,165
Capital Outlay	15,000	15,000	6,825	8,175
Fees	3,700	3,700	4,754	(1,054)
<b>Total Administration</b>	<b>669,067</b>	<b>669,067</b>	<b>1,758,670</b>	<b>(1,089,603)</b>
<b>Fiscal</b>				
Salaries	240,376	240,376	246,217	(5,841)
Fringe Benefits	83,603	83,603	65,989	17,614
Contracts	30,000	30,000	34,215	(4,215)
Supplies	7,000	7,000	3,082	3,918
Capital Outlay	2,000	2,000	44	1,956
Fees	20,000	20,000	26,140	(6,140)
<b>Total Fiscal</b>	<b>382,979</b>	<b>382,979</b>	<b>375,687</b>	<b>7,292</b>

(continued)

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDING JUNE 30, 2004  
(continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Business				
Salaries	102,837	102,837	106,213	(3,376)
Fringe Benefits	45,080	45,080	35,581	9,499
Contracts	6,600	6,600	7,408	(808)
Supplies	60,000	60,000	59,026	974
Capital Outlay	2,000	2,000	-	2,000
Total Business	<u>216,517</u>	<u>216,517</u>	<u>208,228</u>	<u>8,289</u>
Operation and Maintenance of Plant				
Contracts	97,356	97,356	75,460	21,896
Supplies	-	-	18,709	(18,709)
Capital Outlay	-	-	4,329	(4,329)
Total Operation and Maintenance of Plant	<u>97,356</u>	<u>97,356</u>	<u>98,498</u>	<u>(1,142)</u>
Pupil Transportation				
Contracts	-	-	194,881	(194,881)
Supplies	-	-	600	(600)
Total Pupil Transportation	<u>-</u>	<u>-</u>	<u>195,481</u>	<u>(195,481)</u>
Central				
Salaries	448,253	448,253	585,721	(137,468)
Fringe Benefits	123,472	123,472	171,216	(47,744)
Contracts	80,297	80,297	327,507	(247,210)
Supplies	9,300	9,300	9,242	58
Capital Outlay	11,000	11,000	2,426	8,574
Fees	4,100	4,100	1,689	2,411
Total Central	<u>676,422</u>	<u>676,422</u>	<u>1,097,801</u>	<u>(421,379)</u>
Operation of Non-Instructional Services				
Contracts	-	-	28,625	(28,625)
Capital Outlay	-	-	1,394,119	(1,394,119)
Total Operation of Non-Instructional Services	<u>-</u>	<u>-</u>	<u>1,422,744</u>	<u>(1,422,744)</u>
<b>Total Expenditures</b>	<u>23,633,614</u>	<u>23,633,614</u>	<u>25,120,598</u>	<u>(1,486,984)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>72,553</u>	<u>72,553</u>	<u>1,138,581</u>	<u>1,066,028</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Long-term Notes	-	-	1,100,000	1,100,000
Operating Transfers In	-	-	466,570	466,570
Operating Advances In	-	-	402,268	402,268
Operating Transfers Out	-	-	(1,312,402)	(1,312,402)
Advances Out	-	-	(938,862)	(938,862)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(282,426)</u>	<u>282,426</u>
Excess of Revenues and Other Financing Sources Over (Under)				
Expenditures and Other Financing Uses	<u>72,553</u>	<u>72,553</u>	<u>856,155</u>	<u>783,602</u>
Fund Balances at Beginning of Year	5,485,936	5,485,936	5,485,936	-
Prior Year Encumbrances Appropriated	<u>454,452</u>	<u>454,452</u>	<u>454,452</u>	-
Fund Balances at End of Year	<u>\$ 6,012,941</u>	<u>\$ 6,012,941</u>	<u>\$ 6,796,543</u>	<u>\$ 783,602</u>

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	AGENCY FUNDS	INVESTMENT TRUST FUND
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,316,859	\$ 1,942,989
Intergovernmental Receivable	493,191	-
Accrued Interest	-	4,756
Prepaid Items	7,125	
Depreciable Capital Assets, net	847,791	-
 Total Assets	 \$ 3,664,966	 \$ 1,947,745
 <u>Liabilities</u>		
Accounts Payable	\$ 38,606	
Accrued Wages and Benefits	121,906	
Compensated Absences Payable	44,554	
Intergovernmental Payable	363,010	
Undistributed Assets	3,096,890	
 Total Liabilities	 \$ 3,664,966	
 Net Assets		
Held in Trust for Pool Participants		\$ 1,947,745

See accompanying notes to the basic financial statements

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY, OHIO**

STATEMENT OF CHANGES IN NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2004

Revenues:	
Interest	\$ <u>23,223</u>
Net Increase in Assets Resulting from Operations	23,223
Capital Transactions	<u>(335,903)</u>
Decrease in Assets	(312,680)
Net Assets Beginning of Year	<u>2,260,425</u>
Net Assets End of Year	<u>\$ 1,947,745</u>

See accompanying notes to the basic financial statements

## **MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

The Montgomery County Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center is staffed by 224 noncertified and 220 certificated full-time teaching personnel that provide services to the local school Educational Service Centers.

#### **Reporting Entity**

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For 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 body 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 for which 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 is associated with two organizations, which are defined as jointly governed and one insurance purchasing pool. These organizations are discussed in Note 16 and 17 to the basic financial statements. These organizations are:

#### Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association (MDECA)  
Miami Valley Special Education Regional Resource Center (SERRC)

#### Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan



## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 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 government-wide 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.

#### **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 statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The government-wide 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 therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of 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.

#### **Fund Financial Statements**

During the 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 funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

#### ***B. Fund Accounting***

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

#### Governmental Funds

Governmental funds focus 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 General Fund, Scholarship Fund, Miscellaneous State Grants Fund and Miscellaneous Federal Grants Fund are the Educational Service Center's major governmental funds:

##### General Fund

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

##### Scholarship

The Scholarship Fund is used to account for local scholarships and contract service fees as a result of mental health professionals from Good Samaritan Hospital providing services to students of the Educational Service Center.

##### Miscellaneous State Grants Fund

The Miscellaneous State Grants Fund is used to account for various monies received from state agencies which are not classified elsewhere.

##### Miscellaneous Federal Grants Fund

The Miscellaneous Federal Grants Fund is used to account for various monies received from the federal government either through state agencies or directly, which are not classified elsewhere.

The other governmental funds of the Educational Service Center account for grants and other resources, debt service, and capital projects of the Educational Service Center whose uses are restricted to a particular purpose.

#### 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.

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Educational Service Center has one fund, Investment Trust, which is classified as a trust fund. This trust fund is used to account for investment activity of an investment pool with MDECA. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund is used to account for grant resources administered by individuals outside of the Educational Service Center.

#### ***C. Measurement Focus***

##### Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets.

##### 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.

Fiduciary funds are reported using the economic resources measurement focus.

#### ***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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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 the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange 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.

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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: grants, investment earnings, tuition, and student fees.

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 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.

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 cost, such as depreciation and amortization, are not recognized in governmental funds.

#### ***E. Budget Data***

The Educational Service Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Educational Service Center's Board approves a budget for the general fund on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for the general fund. The Educational Service Center does not present amended budgets through out the fiscal year and sets the final budget balance to coincide with actual expenditures.

#### ***F. Cash and Cash Equivalents***

To improve cash management, 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 records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2004, investments consisted of certificates of deposit, which are reported at fair value.

For purposes of the presentation on the financial statement, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

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 2004 amounted to \$142,984, which includes the general funds allocation as well as the allocations of all funds not specified in the Board's resolution. The non-major funds and investment trust fund also earned interest in the amount of \$783 and \$23,223, respectively.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***G. Inventory***

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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 is reported in the year in which services are consumed.

***I. Estimates***

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

***J. Capital Assets and Depreciation***

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

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

All reported capital assets except for 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

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***K. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements.

***L. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method which states that the Educational Service Center will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. 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 sick leave for all employees after 20 years of current service with the Educational Service Center.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

***M. 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions 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 year.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***N. 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.

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

***O. Fund Balance Reserves***

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventory of supplies and materials and encumbrances.

**NOTE 3 - ACCOUNTABILITY**

***A. Accountability***

The following funds have fund equity deficits as of June 30, 2004:

	<u>Deficit Fund Equity</u>
Special Revenue:	
Scholarship	\$ 139,969
Miscellaneous Federal Grants	<u>93,107</u>
Total Special Revenue	\$ <u>233,076</u>

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2004. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
GAAP Basis	\$ 2,892,043
Revenue Accruals	(1,676,827)
Expenditure Accruals	575,448
Advances	(536,594)
Encumbrances	<u>(397,915)</u>
Budget Basis	\$ <u>856,155</u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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



## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

1. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**Deposits:** At year-end, the carrying amount of the Educational Service Center's deposits was \$14,705,228 and the bank balance was \$15,072,507. \$123,035 of the bank balance was covered by federal depository insurance and \$14,949,472 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

***Investments:*** The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. The Educational Service Center did not have any investments at June 30, 2004.

**NOTE 6 – INVESTMENT POOL**

The Educational Service Center serves as a fiscal agent for the Metropolitan Dayton Educational Cooperative Association (MDECA). The Educational Service Center pools the monies of the entity with its own for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of the interest that it earns. The investment pool consists of deposit accounts and certificates of deposit. The certificates of deposit have maturities ranging from July 2004 to September 2004, with interest rates ranging from 1.00% to 1.75%.

Condensed financial information for the investment pool follows:

**Statement of Net Assets  
June 30, 2004**

Assets:	
Cash	\$ 14,705,227
Interest Receivable	24,539
Total Assets	<u>14,729,766</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	1,947,745
External Portion	12,782,021
Total Net Assets Held in Trust for Pool Participants	<u>14,729,766</u>
Revenues:	
Interest	166,990
Expenses:	
Operating Expenses	-
Net Increase in Assets Resulting from Operations	166,990
Capital Transactions	339,200
Increase in Net Assets	506,190
Net Assets Beginning of Year	14,223,588
Net Assets End of Year	<u>\$ 14,729,778</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 7 – STATE FUNDING**

The Educational Service Center is funded by the State Department of Education from State resources and the school districts to which the Educational Service Center provides services. Each school district’s portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. By agreement, the District receives an additional \$8.57 per pupil. This amount is deducted by the State Department of Education from that school district’s resources provided under the State’s Foundation Program. The Department of Education’s portion is determined by multiplying the sum of the average daily memberships of all of the school district’s served by the Educational Service Center by \$37. This amount is provided from State resources.

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

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2004, consisted of local school district accounts, intergovernmental grants and interfund transactions. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
General Fund	2,085,547
Scholarship	408,018
Miami Valley Teachers and Leaders	15,804
Entry Year Programs	24,101
Title I	20,857
Miscellaneous State Grants	284,065
Miscellaneous Federal Grants	<u>41,407</u>
Total Intergovernmental Receivables	<u><u>2,879,799</u></u>

**NOTE 9 - CAPITAL ASSETS**

	Balance 6/30/03	Additions	Deductions	Balance 6/30/04
<b><u>Capital Assets, not being depreciated</u></b>				
Land	<u>\$182,098</u>	<u>-</u>	<u>-</u>	<u>\$182,098</u>
<b><u>Capital Assets, being depreciated</u></b>				
Buildings and Improvements	1,267,902	1,380,000	-	2,647,902
Furniture and Equipment	828,555	16,792	(122,373)	722,974
Vehicles	23,215	-	-	23,215
	<u>2,119,672</u>	<u>1,396,792</u>	<u>(122,373)</u>	<u>3,394,091</u>

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 9 - CAPITAL ASSETS (Continued)**

**Less: Accumulated Depreciation**

Buildings and Improvements	(42,263)	(27,657)	-	(69,920)
Furniture and Equipment	(478,554)	(65,028)	122,373	(421,209)
Vehicles	(1,935)	(4,643)	-	(6,578)
	<u>(522,752)</u>	<u>(97,328)</u>	<u>122,373</u>	<u>(497,707)</u>
 Governmental Activities Capital				
Assets, Net	<u>\$1,779,018</u>	<u>1,299,464</u>	<u>-</u>	<u>\$3,078,482</u>

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

Instruction:

    Special

	3,293
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Support Services:

Pupils	7,062
Instructional Staff	22,291
Administration	5,306
Central	<u>20,876</u>

58,828

Unallocated Depreciation

38,500

Total Depreciation Expense

97,328

Unallocated depreciation is depreciation of the individual school buildings throughout the Educational Service Center, which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

**NOTE 10 - 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 2004, the Educational Service Center contracted with Nationwide Insurance Company for property, general liability and fleet coverage. Coverage provided by Nationwide Insurance Company is as follows:

Buildings and Contents – (\$1000 deductible)	\$10,506,700
Automobile Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Fire	500,000
Medical expense per person	10,000
General aggregate	3,000,000
Products aggregate	1,000,000

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

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 10 - RISK MANAGEMENT (Continued)**

#### ***B. Workers' Compensation***

For fiscal year 2004, the Educational Service Center participated in the Southwest Ohio Educational Purchasing Council of Worker's Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (see Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school Educational Service Centers is calculated as one experience and a common premium rate is applied to all school Educational Service Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school Educational Service Centers that can meet the GRP's selection criteria. The firm of Comp Management, Inc., provides administrative, cost control and actuarial services to the GRP.

### **NOTE 11 - DEFINED BENEFIT PENSION PLANS**

#### ***A. School Employees Retirement System***

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$616,430, \$554,758 and \$277,497, respectively; 86 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$272,075 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds and the Statement of Net Assets.

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

#### ***B. State Teachers Retirement System***

The School 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average

salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the

regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan.

This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,720,095, \$1,547,542 and \$ 970,913; 84 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

#### *C. Social Security System*

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to the School Employees Retirement System.

### **NOTE 12 – POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the Educational Service Center, this amount equaled \$132,315 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including the surcharge, was \$360,211 for fiscal year 2004.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System’s net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000

**NOTE 13 - EMPLOYEE BENEFITS**

***A. Compensated Absences***

Accumulated Unpaid Sick Leave

Sick leave may be accumulated up to a maximum of 285 days for all Educational Service Center employees. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum of sixty-six days for all employees with ten or more years of current service with the Educational Service Center. The total obligation for sick leave accrual for the Educational Service Center as a whole as of June 30, 2004 was \$413,749

Accumulated Vacation Leave

Vacation leave may be carried over to the succeeding fiscal year but must be used by January 1 of that year. The total obligation for vacation leave accrual for the Educational Service Center as a whole as of June 30, 2004 was \$52,250

***B. Health Care Benefits***

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Connecticut General Life Insurance Company. The Educational Service Center provides health insurance coverage through United Health Care of Ohio, Inc. The employees share the cost of the monthly premium with the Board. The employee premium varies depending on the terms of the union contract and the number of days contracted. Dental insurance is provided through CoreSource.

**NOTE 14 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center’s long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
Compensated Absences	\$ 414,593	89,563	38,156	\$ 466,000	\$ 52,250
Notes Payable, 3.66%	-	1,100,000	-	1,100,000	204,013
Total Governmental Activities	\$ 414,593	1,189,563	38,156	\$ 1,566,000	\$ 256,263



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 14 - LONG-TERM OBLIGATIONS (Continued)**

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The long-term note was issued to purchase a building that is to be used for additional classroom space as a result of school buildings and facilities that were previously being used have been razed or closed.

Debt service requirements to maturity are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 204,013	\$ 37,392
2006	211,715	29,689
2007	219,704	21,700
2008	227,919	13,485
2009	<u>236,649</u>	<u>4,756</u>
Total	\$ <u>1,100,000</u>	\$ <u>107,022</u>

**NOTE 15 - INTERFUND ACTIVITY**

As indicated on the face of the Combined Balance Sheet, the interfund payable represents funds loaned from the general fund to special revenue funds that receive grants on a reimbursement basis. Funds are advanced to the special revenue funds to prevent negative fund balances that could result due to these funds receiving proceeds after expenses are incurred. It is anticipated that these funds will be repaid during fiscal year 2004 with the reimbursed funds.

For the year ended June 30, 2004, the general fund transferred \$38,463 to the nonmajor special revenue funds for state monies used to fund the Frontier Learning program. These monies were posted to the general fund and then transferred to the fund that incurred the expense. The non-major special revenue funds transferred \$359,213 to the general fund to reimburse the general fund for payments made for CAFS program expenditures that were posted to the general fund. These transfers are permanent and will not be repaid by the funds receiving the transfer.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

Metropolitan Dayton Educational Cooperative Association

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

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. The Educational Service Center paid MDECA \$75,514 for services provided during the year. Financial information can be obtained from Jerry C. Woodyard, Executive Director of MDECA at 201 Riverside Drive, Dayton, Ohio 45405.

## MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### **NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)**

#### **Miami Valley Special Education Regional Resource Center**

The Miami Valley Special Education Regional Resource Center (SERRC) is designed to initiate, expand and improve the delivery of special education services to children with disabilities in Clark, Darke, Greene, Miami, Montgomery, and Preble Counties. The Educational Service Center is the fiscal agent for the SERRC. The SERRC is funded with Title VI-B and State Foundation funds as well as annual assessments from the participating school districts based upon average daily membership (ADM). For GAAP reporting purposes, the SERRC is presented as an agency fund.

The governing board consists of superintendents of participating school districts, two parents of children with disabilities, one representative of a chartered non-public school, one representative of a county board of MR/DD, representatives of universities, and optional members who may include student representatives and persons with disabilities.

### **NOTE 17 - INSURANCE PURCHASING POOL**

#### **Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight members elected by majority vote of all member school Educational Service Centers. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

### **NOTE 18 - STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School Educational Service Center is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

### **NOTE 19 - CONTINGENCIES**

#### **A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 19 – CONTINGENCIES** (Continued)

**B. Litigation**

The Educational Service Center is party to legal proceedings. The Educational Service Center is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Educational Service Center.

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	048660-6B-SI-03P	\$340,770	\$580,547
		048660-6B-SI-04P	1,471,047	1,087,847
		048660-6B-II-03P	23,326	79,676
		048660-6B-AA-03P	8,509	29,384
Total Special Education Grants to States			<u>1,843,652</u>	<u>1,777,454</u>
Special Education Preschool Grants	84.173	PGS3-2002-P	(76)	
Total Special Education Cluster			<u>1,843,576</u>	<u>1,777,454</u>
Title I Grants to Local Educational Agencies	84.010	048660-200-431-03		47,058
		MSA3-02	33,280	33,280
Total Title I Grants to Local Educational Agencies			<u>33,280</u>	<u>80,338</u>
Safe and Drug Free Schools and Communities - State Grants	84.186		(2,389)	
		048660-DRS2-03	32,835	42,680
		048660-DRS2-04	272,601	268,896
Total Safe and Drug Free Schools and Communities - State Grants			<u>303,047</u>	<u>311,576</u>
Funds for the Improvement of Education	84.215	U215X030385		54,478
Improving Teacher Quality State Grant	84.367	048660-TRA2-04	65,799	39,123
Total United States Department of Education			<u>2,245,702</u>	<u>2,262,969</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medicaid Assistance Program	93.778	N/A	327,638	19,564
<b>Total Federal Financial Assistance</b>			<u><b>\$2,573,340</b></u>	<u><b>\$2,282,533</b></u>

*The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this schedule.*

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - MATCHING REQUIREMENTS**

Certain federal programs require the Educational Service Center to contribute non-federal (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the schedule.

**NOTE C - SUBRECIPIENTS**

The Educational Service Center passes-through certain federal assistance received from the U.S. Department of Health and Human Services to other governments. As discussed in Note A, the Educational Service Center records expenditures of federal awards to subrecipients when paid in cash. The subrecipient's agencies have certain compliance responsibilities related to administering these federal programs. Under Federal Circular A-133, the Educational Service Center is responsible for monitoring subrecipients to help ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

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## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County (the Center) as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the Center's management in a separate letter dated March 1, 2005.

#### **Internal Control Over Financial Reporting**

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

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

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

**Betty Montgomery**  
Auditor of State

March 1, 2005





## Auditor of State Betty Montgomery

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

Montgomery County Educational Service Center  
Montgomery County  
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 Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, we noted certain instances of noncompliance that do not require inclusion in this report, that we have reported to the management of the Center in a separate letter dated March 1, 2005.

### **Internal Control Over Compliance**

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



**Betty Montgomery**  
Auditor of State

March 1, 2005

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA # 84.027: Special Education Grants to States CFDA # 84.186: Safe and Drug Free Schools Grant
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

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

None





**Auditor of State  
Betty Montgomery**

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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 29, 2005**