



**Auditor of State
Betty Montgomery**

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Miami County Educational Service Center
Miami County
510 W. Water Street, Suite 210
Troy, Ohio 45373

To the Members of the Board:

We have audited the accompanying general-purpose financial statements of the Miami County Educational Service Center, Miami County, (the ESC) as of and for the years ended June 30, 2003 and June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Miami County Educational Service Center, as of June 30, 2003 and June 30, 2002, for the years 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 December 4, 2003, on our consideration of the ESC'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.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 4, 2003

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

| | <u>Governmental Fund Types</u> | | <u>Account Groups</u> | | <u>Total (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|-------------------------------------|--|--|
| | <u>General</u> | <u>Special Revenue</u> | <u>General Fixed Assets</u> | <u>General Long-Term Obligations</u> | |
| ASSETS AND OTHER DEBITS | | | | | |
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$2,256,468 | \$30,529 | | | \$2,286,997 |
| Receivables (net of allowances of uncollectibles): | | | | | |
| Accrued interest | 4,564 | | | | 4,564 |
| Due from other governments | 753,566 | 9,025 | | | 762,591 |
| Materials and supplies inventory | 7,518 | | | | 7,518 |
| Prepayments | 11,951 | 13 | | | 11,964 |
| Property, plant and equipment (net of accumulated depreciation where applicable) | | | \$486,394 | | 486,394 |
| OTHER DEBITS: | | | | | |
| Amount to be provided for retirement of general long-term obligations | | | | \$156,966 | 156,966 |
| Total assets and other debits | 3,034,067 | 39,567 | 486,394 | 156,966 | 3,716,994 |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 18,037 | 114 | | | 18,151 |
| Accrued wages and benefits | 820,373 | 14,880 | | | 835,253 |
| Compensated absences payable | 10,934 | | | 156,966 | 167,900 |
| Deferred revenue | 55,646 | | | | 55,646 |
| Due to other governments | 83,442 | 2,536 | | | 85,978 |
| Pension obligation payable | 109,492 | 2,075 | | | 111,567 |
| Total liabilities | 1,097,924 | 19,605 | | 156,966 | 1,274,495 |
| EQUITY AND OTHER CREDITS: | | | | | |
| Investment in general fixed assets | | | 486,394 | | 486,394 |
| Fund balances: | | | | | |
| Reserved for encumbrances | 59,040 | 9,850 | | | 68,890 |
| Reserved for materials and supplies inventory | 7,518 | | | | 7,518 |
| Reserved for prepayments | 11,951 | 13 | | | 11,964 |
| Unreserved-undesignated | 1,857,634 | 10,099 | | | 1,867,733 |
| Total equity and other credits | 1,936,143 | 19,962 | 486,394 | | 2,442,499 |
| Total liabilities, equity and other credits | \$3,034,067 | \$39,567 | \$486,394 | \$156,966 | \$3,716,994 |

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| | <u>Governmental Fund Types</u> | | | <u>Total (Memorandum Only)</u> |
|---|--------------------------------|----------------------------|-----------------------------|--|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Tuition | \$11,998 | | | \$11,998 |
| Extracurricular | | \$751 | | 751 |
| Earnings on investments | 54,636 | | | 54,636 |
| Contract services | 6,724,336 | | | 6,724,336 |
| Gifts and donations | 1,800 | 30,800 | | 32,600 |
| Other local revenues | 120,227 | 27,143 | | 147,370 |
| Other revenue | 1,652 | | | 1,652 |
| Intergovernmental - state | 1,357,988 | 133,971 | | 1,491,959 |
| Intergovernmental - federal | 310,497 | 77,891 | | 388,388 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenue | 8,583,134 | 270,556 | | 8,853,690 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 390,133 | 28,830 | | 418,963 |
| Special | 2,985,332 | 17,055 | | 3,002,387 |
| Support services: | | | | |
| Pupil | 1,946,556 | 74,069 | | 2,020,625 |
| Instructional staff | 1,571,086 | 80,986 | \$6,595 | 1,658,667 |
| Board of Education | 17,736 | | | 17,736 |
| Administration | 1,092,813 | 2,860 | | 1,095,673 |
| Fiscal | 156,145 | 7,638 | | 163,783 |
| Operations and maintenance | 609 | | | 609 |
| Pupil transportation | 9,546 | | | 9,546 |
| Central | 270,583 | 2,074 | | 272,657 |
| Extracurricular activities | | 992 | | 992 |
| Community services | | 27,315 | | 27,315 |
| Intergovernmental | | 99,244 | | 99,244 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 8,440,539 | 341,063 | 6,595 | 8,788,197 |
| Excess (deficiency) of revenues over (under) expenditures | 142,595 | (70,507) | (6,595) | 65,493 |
| Other financing sources (uses): | | | | |
| Operating transfers in | | 9,876 | | 9,876 |
| Operating transfers out | (9,876) | | | (9,876) |
| Proceeds from sale of fixed assets | 12,843 | | | 12,843 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total other financing sources (uses) | 2,967 | 9,876 | | 12,843 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | 145,562 | (60,631) | (6,595) | 78,336 |
| Fund balances, July 1 | 1,792,675 | 80,593 | 6,595 | 1,879,863 |
| Decrease in reserve for inventory | (2,094) | | | (2,094) |
| Fund balances, June 30 | <hr/> <u>\$1,936,143</u> | <hr/> <u>\$19,962</u> | <hr/> <u>\$0</u> | <hr/> <u>\$1,956,105</u> |

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

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| | General | | | Special Revenue | | |
|--|-------------------|-------------|---|-------------------|-----------|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Tuition | \$12,000 | \$11,998 | (\$2) | | | |
| Extracurricular | | | | \$600 | \$751 | \$151 |
| Earnings on investments | 60,000 | 54,859 | (5,141) | | | |
| Contract services | 6,549,267 | 6,385,053 | (164,214) | | | |
| Gifts and donations | | 1,800 | 1,800 | | 30,800 | 30,800 |
| Other local revenues | 224,000 | 189,253 | (34,747) | 65,000 | 18,118 | (46,882) |
| Other revenue | | 1,652 | 1,652 | | | |
| Intergovernmental - State | 1,336,968 | 1,371,924 | 34,956 | 133,738 | 134,506 | 768 |
| Intergovernmental - Federal | 150,000 | 242,230 | 92,230 | 77,891 | 77,891 | |
| Total revenues | 8,332,235 | 8,258,769 | (73,466) | 277,229 | 262,066 | (15,163) |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 403,704 | 394,124 | 9,580 | 34,152 | 34,152 | |
| Special | 3,075,990 | 2,950,349 | 125,641 | 16,898 | 16,898 | |
| Support services: | | | | | | |
| Pupil | 2,069,097 | 1,879,111 | 189,986 | 67,562 | 67,562 | |
| Instructional staff | 1,696,348 | 1,600,779 | 95,569 | 237,648 | 220,982 | 16,666 |
| Board of Education | 29,900 | 17,807 | 12,093 | | | |
| Administration | 1,202,771 | 1,077,438 | 125,333 | 3,400 | 2,860 | 540 |
| Fiscal | 179,064 | 158,045 | 21,019 | 10,729 | 10,690 | 39 |
| Operations and maintenance | 3,000 | 613 | 2,387 | | | |
| Pupil transportation | 10,680 | 10,389 | 291 | | | |
| Central | 290,185 | 265,235 | 24,950 | 4,000 | 2,074 | 1,926 |
| Extracurricular activities | | | | 1,102 | 992 | 110 |
| Community services | 525 | 524 | 1 | 30,943 | 26,591 | 4,352 |
| Total expenditures | 8,961,264 | 8,354,414 | 606,850 | 406,434 | 382,801 | 23,633 |
| Excess (deficiency) of revenues over (under) expenditures | (629,029) | (95,645) | 533,384 | (129,205) | (120,735) | 8,470 |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | | 148,017 | 148,017 | | 13,447 | 13,447 |
| Operating transfers out | (158,000) | (157,893) | 107 | (3,571) | (3,571) | |
| Proceeds from sale of fixed assets | | 12,843 | 12,843 | | | |
| Refund of prior year's receipts | (250) | | 250 | (2,581) | (2,510) | 71 |
| Refund of prior year expenditure | | 6,247 | 6,247 | | | |
| Total other financing sources (uses) | (158,250) | 9,214 | 167,464 | (6,152) | 7,366 | 13,518 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | (787,279) | (86,431) | 700,848 | (135,357) | (113,369) | 21,988 |
| Fund balances, July 1 | 2,198,943 | 2,198,943 | | 73,140 | 73,140 | |
| Prior year encumbrances appropriated | 61,809 | 61,809 | | 60,794 | 60,794 | |
| Fund balances, June 30 | \$1,473,473 | \$2,174,321 | \$700,848 | (\$1,423) | \$20,565 | \$21,988 |

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

| Capital Projects | | | Total (Memorandum only) | | |
|------------------|---------|-----------------------------------|-------------------------|-------------|-----------------------------------|
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| | | | \$12,000 | \$11,998 | (\$2) |
| | | | 600 | 751 | 151 |
| | | | 60,000 | 54,859 | (5,141) |
| | | | 6,549,267 | 6,385,053 | (164,214) |
| | | | | 32,600 | 32,600 |
| | | | 289,000 | 207,371 | (81,629) |
| | | | | 1,652 | 1,652 |
| | | | 1,470,706 | 1,506,430 | 35,724 |
| | | | 227,891 | 320,121 | 92,230 |
| | | | 8,609,464 | 8,520,835 | (88,629) |
| | | | 437,856 | 428,276 | 9,580 |
| | | | 3,092,888 | 2,967,247 | 125,641 |
| | | | 2,136,659 | 1,946,673 | 189,986 |
| \$6,595 | \$6,595 | | 1,940,591 | 1,828,356 | 112,235 |
| | | | 29,900 | 17,807 | 12,093 |
| | | | 1,206,171 | 1,080,298 | 125,873 |
| | | | 189,793 | 168,735 | 21,058 |
| | | | 3,000 | 613 | 2,387 |
| | | | 10,680 | 10,389 | 291 |
| | | | 294,185 | 267,309 | 26,876 |
| | | | 1,102 | 992 | 110 |
| | | | 31,468 | 27,115 | 4,353 |
| 6,595 | 6,595 | | 9,374,293 | 8,743,810 | 630,483 |
| (6,595) | (6,595) | | (764,829) | (222,975) | 541,854 |
| | | | | 161,464 | 161,464 |
| | | | (161,571) | (161,464) | 107 |
| | | | | 12,843 | 12,843 |
| | | | (2,831) | (2,510) | 321 |
| | | | | 6,247 | 6,247 |
| | | | (164,402) | 16,580 | 180,982 |
| (6,595) | (6,595) | | (929,231) | (206,395) | 722,836 |
| | | | 2,272,083 | 2,272,083 | |
| 6,595 | 6,595 | | 129,198 | 129,198 | |
| \$0 | \$0 | \$0 | \$1,472,050 | \$2,194,886 | \$722,836 |

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE ENTITY

The Miami County Educational Service Center (the "Educational Service Center") is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East and Newton Local School Districts, the Bradford, Covington, Milton Union and Tipp City Exempted Village School Districts, and Piqua and Troy City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Miami County Educational Service Center operates under a locally-elected five member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 127 support staff employees and 114 certified teaching personnel that provide services to the local, exempted village and city school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the Educational Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The Educational Service Center's significant accounting policies are described below.

A. The Reporting Entity

The Educational Service Center's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The financial statements include all funds, account groups, agencies, boards, commissions, and component units for which the Educational Service Center is "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the Educational Service Center and whether exclusion would cause the Educational Service Center's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependence and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the Educational Service Center. Based upon the application of these, the Educational Service Center has no component units.

The following organizations are described due to their relationship with the Educational Service Center.

The following entities which perform activities within the Educational Service Center boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Education Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

City of Troy - The city government of Troy is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

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

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. Payments to MDECA are made from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at Hoke Road, Clayton, Ohio 45315.

2. Public Entity Risk Pools

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

Ohio School Risk Sharing Authority - The Educational Service Center participates in the Ohio School Risk Sharing Authority (the Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a nine member board consisting of superintendents, treasurers and business managers.

The Frank Gates Service Company is responsible for processing claims. Willis Pooling serves as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Educational Service Center uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

1. Governmental Funds

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

General Fund - The general fund is the general operating fund of the Educational Service Center and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Fund - The capital project fund is used to account for revenues and expenditures related to the acquisition or construction of major capital facilities.

2. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the Educational Service Center.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting

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

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the Educational Service Center is sixty days after the June 30 fiscal year-end. Revenues accrued at the end of the year include interest, grants and entitlements, and charges for services.

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 met and the resources are available. 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.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

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

D. Budgets

The budgetary process entails preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the fiscal year as circumstances warrant.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Estimated Resources:

The Educational Service Center estimates its breakdown of revenue to the State Department of Education by January 20 of each year. This breakdown then serves as the State Department's basis for determining the revenue to be received by the Educational Service Center. This breakdown is also used as the basis for the annual appropriation measure.

2. Appropriations:

A temporary appropriation resolution to control expenditures may be passed on or about July 1 of each year for the period of July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function, object level of expenditures which are the legal levels of budgetary control. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Educational Service Center. Several supplemental appropriation resolutions were legally enacted by the Educational Service Center during the year. The budget figures, which appear in the statement of budgetary comparisons, represent the final appropriation amounts including all amendments and modifications.

3. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end for governmental fund types are reported as reservations of fund balances for subsequent-year expenditures. Note 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

4. Lapsing of Appropriations:

As the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

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's 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 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and First American Treasury money market mutual fund. Investments are reported at fair market value, which is based upon quoted market prices. Fair market value of the mutual fund is based on the fund's current share price.

The Educational Service Center has invested funds in STAR Ohio during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$54,636 which includes \$3,726 assigned from other Educational Service Center funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

An analysis of the Treasurer's investment account at fiscal year-end is provided in Note 4.

F. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. The Educational Service Center follows the capitalization policy of not capitalizing assets with a cost of less than \$500. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. No depreciation is recognized for assets in the general fixed assets account group.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have been paid using current available financial resources.

I. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory and prepayments. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

During the course of normal operations, the Educational Service Center may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The Educational Service Center had no short-term interfund loans receivable and payable at June 30, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The Educational Service Center had no long-term advances receivable or payable at June 30, 2003.

See Note 5 for an analysis of the interfund transactions.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

M. Inventory

Inventories are stated at cost on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available expendable resources even though it is a component of reported assets.

N. Estimates

The preparation of GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Memorandum Only - Total Columns

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

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2003, included the following individual deficits:

| | <u>Fund Deficit</u> |
|---------------------------------------|----------------------------|
| Special Revenue Funds | |
| Management Information Systems | \$ 56 |
| Alternative Education Challenge Grant | 529 |
| Miscellaneous State Grants | 4,154 |
| Title I | 189 |
| Preschool Grants for the Handicapped | 715 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

These deficit fund balances are caused by the application of GAAP, namely in the reporting of a liability for accrued wages and pension obligations attributable to the fiscal year. These deficits will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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.

Protection of the 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.

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 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) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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 qualified trustee 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 No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year-end the carrying amount of the Educational Service Center's deposits was \$898,323 and the bank balance, was \$1,307,492.

1. \$100,000 was covered by federal depository insurance; and
2. \$1,207,492 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Investments: The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the Educational Service Center. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the Educational Service Center's name. Investments in STAR Ohio and money market mutual funds are not categorized as they are not evidenced by securities that exist in physical book entry form.

| | Category <u>2</u> | <u>Unclassified</u> | <u>Fair Value</u> |
|---------------------------|------------------------------|----------------------------|------------------------------|
| Federal agency securities | \$1,025,325 | \$ - | \$1,025,325 |
| Investment in STAR Ohio | - | 355,794 | 355,794 |
| Money market mutual fund | <u>-</u> | <u>7,555</u> | <u>7,555</u> |
| Total investments | <u>\$1,025,325</u> | <u>\$ 363,349</u> | <u>\$1,388,674</u> |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|--|---|---------------------|
| GASB Statement No. 9 | \$ 2,286,997 | \$ - |
| Investments of the cash management pool: | | |
| Federal agency securities | (1,025,325) | 1,025,325 |
| Investment in STAR Ohio | (355,794) | 355,794 |
| Money market mutual fund | <u>(7,555)</u> | <u>7,555</u> |
| GASB Statement No. 3 | <u>\$ 898,323</u> | <u>\$ 1,388,674</u> |

5. INTERFUND TRANSACTIONS

The following is a summarized breakdown of the Educational Service Center's operating transfers for fiscal year 2003:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------|---------------------|----------------------|
| General Fund | - | \$9,876 |
| Special Revenue Funds | | |
| Public School Support Fund | <u>\$9,876</u> | - |
| Totals | <u>\$9,876</u> | <u>\$9,876</u> |

6. RECEIVABLES

Receivables at June 30, 2003 consisted of accrued interest, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. 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 receivables follows:

| | <u>Amounts</u> |
|----------------------------|----------------|
| General Fund | |
| Accrued interest | \$ 4,564 |
| Due from other governments | 753,566 |
| Special Revenue Funds | |
| Due from other governments | 9,025 |

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. FIXED ASSETS

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

| | <u>Balance July 1, 2002</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2003</u> |
|---------------------|---------------------------------|------------------|------------------|----------------------------------|
| Furniture/equipment | \$469,760 | \$35,092 | \$(18,458) | \$486,394 |

8. LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group:

| | <u>Balance July 1, 2002</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance June 30, 2003</u> |
|----------------------|---------------------------------|-----------------|-----------------|----------------------------------|
| Compensated absences | \$157,480 | \$15,950 | \$(16,464) | \$156,966 |

Compensated absences will ultimately be paid from the fund from which the employee is paid.

9. COMPENSATED ABSENCES

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid upon termination of employment. Teachers, administrators and classified employees earn sick leave at the rate of 1.25 days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, employees who have worked continuously with the Educational Service Center for at least five years receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

10. RISK MANAGEMENT

A. Comprehensive

During fiscal year 2003, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio Schools Risk Sharing Authority (the Plan), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the Plan and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the Plan (see Note 2.A.).

The types and amounts of coverage provided by the Ohio School Risk Sharing Authority are as follows:

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

10. RISK MANAGEMENT (Continued)

Property General Liability:

| | |
|--|--------------|
| Bodily Injury and Property Damage | \$ 4,000,000 |
| Personal and Advertising Injury Limit - Each Offense | 4,000,000 |
| Fire Damage Limit - Any One Event | 500,000 |
| Medical Expense - per occurrence/aggregate | 1,000/5,000 |
| General Aggregate Limit | 6,000,000 |
| Products - Completed Operations Limit | 4,000,000 |

Educational Legal Liability:

| | |
|---------------------|-----------|
| Errors or Omissions | 4,000,000 |
|---------------------|-----------|

Automobile Liability:

| | |
|----------------------|-----------|
| Owned/Lease vehicles | 4,000,000 |
| Uninsured Motorist | 50,000 |

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

B. Employee Health Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided by United Health Care, through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 2.A.). Dental benefits are provided through CoreSource.

The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

C. Workers' Compensation

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium of the Educational Service center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Educational Service Center is calculated as one experience and a common premium rate is applied to all Educational Service Center in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." The "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Educational Service Center than can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$167,044, \$93,956, and \$62,692, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, 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.

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11. DEFINED BENEFIT PENSION PLANS (Continued)

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.

Plan members are required to contribute 9.3% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$528,837, \$117,438, and \$382,902, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

12. POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the Educational Service Center, this amount equaled \$40,680 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$153,616 during the 2003 fiscal year.

13. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. BUDGETARY BASIS OF ACCOUNTING (Continued)

**EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER/(UNDER) EXPENDITURES AND OTHER
FINANCING USES**

| | Governmental Fund Types | | |
|---|--------------------------------|------------------------|-------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> |
| Budget basis | \$ (86,431) | \$(113,369) | \$ (6,595) |
| Net adjustment for revenue accruals | 324,365 | 8,490 | - |
| Net adjustment for expenditure accruals | (161,783) | 31,774 | - |
| Net adjustment for other financing sources/(uses) | (6,247) | 2,510 | - |
| Encumbrances (budget basis) | <u>75,658</u> | <u>9,964</u> | <u>-</u> |
| GAAP basis | <u>\$ 145,562</u> | <u>\$ (60,631)</u> | <u>\$ (6,595)</u> |

14. CONTINGENCIES

A. Grants

The Educational Service Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Educational Service Center at June 30, 2003.

B. Litigation

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

15. STATE FUNDING

The Educational Service Center is funded by the State Board of Education from state funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Educational Service Center provides services from payments made under the state's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from state funds to the Educational Service Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$42.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

| | Governmental Fund Types | | |
|--|-------------------------|--------------------|---------------------|
| | General | Special Revenue | Capital Projects |
| Assets and Other Debits | | | |
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,272,028 | \$133,934 | \$6,595 |
| Receivable: | | | |
| Intergovernmental | 448,266 | 536 | |
| Prepaid Items | 3,804 | 762 | |
| Materials and Supplies Inventory | 9,612 | | |
| Fixed Assets | | | |
| Other Debits: | | | |
| Amount to be Provided for Retirement of General Long-Term Obligations | | | |
| Total Assets and Other Debits | 2,733,710 | 135,232 | 6,595 |
| Liabilities, Fund Equity and Other Credits | | | |
| Liabilities: | | | |
| Accounts Payable | 1,418 | 43,031 | |
| Accrued Wages and Benefits Payable | 727,349 | 10,292 | |
| Intergovernmental Payable | 148,824 | 1,316 | |
| Deferred Revenue | 58,571 | | |
| Compensated Absences Payable | 4,873 | | |
| Total Liabilities | 941,035 | 54,639 | |
| Fund Equity and Other Credits: | | | |
| Investment in General Fixed Assets | | | |
| Fund Balance: | | | |
| Reserved for Encumbrances | 84,750 | | |
| Reserved for Materials and Supplies Inventory | 9,612 | | |
| Unreserved, Undesignated | 1,698,313 | 80,593 | 6,595 |
| Total Fund Equity and Other Credits | 1,792,675 | 80,593 | 6,595 |
| Total Liabilities, Fund Equity and Other Credits | \$2,733,710 | \$135,232 | \$6,595 |

See Accompanying Notes to the General Purpose Financial Statements

| <u>Account Groups</u> | | |
|-------------------------------------|--|--|
| <u>General Fixed Assets</u> | <u>General Long-Term Obligations</u> | <u>Total (Memorandum Only)</u> |
| | | \$2,412,557 |
| | | 448,802 |
| | | 4,566 |
| | | 9,612 |
| \$469,760 | | 469,760 |
| | \$157,480 | 157,480 |
| <u>469,760</u> | <u>157,480</u> | <u>3,502,777</u> |
| | | 44,449 |
| | | 737,641 |
| | | 150,140 |
| | | 58,571 |
| | 157,480 | 162,353 |
| | <u>157,480</u> | <u>1,153,154</u> |
| 469,760 | | 469,760 |
| | | 84,750 |
| | | 9,612 |
| | | 1,785,501 |
| <u>469,760</u> | | <u>2,349,623</u> |
| <u>\$469,760</u> | <u>\$157,480</u> | <u>\$3,502,777</u> |

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Total (Memorandum Only)</u> |
|--|--------------------|----------------------------|-----------------------------|--|
| Revenues: | | | | |
| Tuition and Fees | \$22,145 | | | \$22,145 |
| Interest | 70,862 | | | 70,862 |
| Intergovernmental | 1,833,254 | \$399,244 | \$6,595 | 2,239,093 |
| Charges for Services | 5,938,031 | 23,334 | | 5,961,365 |
| Extracurricular | | 523 | | 523 |
| Gifts and Donations | 1,725 | 25,785 | | 27,510 |
| Miscellaneous | 22,818 | 1,916 | | 24,734 |
| Total Revenues | <u>7,888,835</u> | <u>450,802</u> | <u>6,595</u> | <u>8,346,232</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 379,546 | 39,813 | | 419,359 |
| Special | 2,761,368 | 11,832 | | 2,773,200 |
| Support Services: | | | | |
| Pupils | 1,750,066 | 45,028 | | 1,795,094 |
| Instructional Staff | 1,423,896 | 262,103 | | 1,685,999 |
| Board of Education | 18,691 | | | 18,691 |
| Administration | 889,797 | 1,850 | | 891,647 |
| Fiscal | 153,572 | 18,076 | | 171,648 |
| Operation and Maintenance of Plant | 3,954 | | | 3,954 |
| Pupil Transportation | 788 | | | 788 |
| Central | 163,180 | 1,478 | | 164,658 |
| Non-Instructional Services | 2,009 | 43,618 | | 45,627 |
| Extracurricular Activities | | 500 | | 500 |
| Intergovernmental | | 59,720 | | 59,720 |
| Total Expenditures | <u>7,546,867</u> | <u>484,018</u> | <u>6,595</u> | <u>8,030,885</u> |
| Excess of Revenues Over (Under) Expenditures | <u>341,968</u> | <u>(33,216)</u> | <u>6,595</u> | <u>315,347</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers - In | | 11,373 | | 11,373 |
| Operating Transfers - Out | (11,373) | | | (11,373) |
| Total Other Financing Sources (Uses) | <u>(11,373)</u> | <u>11,373</u> | | |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 330,595 | (21,843) | 6,595 | 315,347 |
| Fund Balances at Beginning of Year | 1,460,679 | 102,436 | | 1,563,115 |
| Increase in Reserve for Inventory | 1,401 | | | 1,401 |
| Fund Balances at End of Year | <u>\$1,792,675</u> | <u>\$80,593</u> | <u>\$6,595</u> | <u>\$1,879,863</u> |

See Accompanying Notes to the General Purpose Financial Statements

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | General Fund | | |
|---|---------------------------|--------------------|---|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Tuition and Fees | \$15,000 | \$22,145 | \$7,145 |
| Interest | 80,000 | 59,880 | (20,120) |
| Intergovernmental | 1,770,228 | 1,843,971 | 73,743 |
| Charges for Services | 5,674,000 | 5,820,200 | 146,200 |
| Extracurricular | | | |
| Gifts and Donations | | 1,725 | 1,725 |
| Miscellaneous | | 22,663 | 22,663 |
| Total Revenues | 7,539,228 | 7,770,584 | 231,356 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 423,775 | 376,765 | 47,010 |
| Special | 3,008,097 | 2,912,572 | 95,525 |
| Support Services: | | | |
| Pupils | 1,982,403 | 1,822,756 | 159,647 |
| Instructional Staff | 1,513,011 | 1,421,302 | 91,709 |
| Board of Education | 32,480 | 18,686 | 13,794 |
| Administration | 1,201,017 | 941,644 | 259,373 |
| Fiscal | 170,343 | 155,947 | 14,396 |
| Operation and Maintenance of Plant | 4,570 | 3,955 | 615 |
| Pupil Transportation | 1,500 | 1,491 | 9 |
| Central | 215,724 | 162,958 | 52,766 |
| Non-Instructional Services | 1,922 | 2,009 | (87) |
| Extracurricular | | | |
| Total Expenditures | 8,554,842 | 7,820,085 | 734,757 |
| Excess of Revenues Over (Under) Expenditures | (1,015,614) | (49,501) | 966,113 |
| Other Financing Sources (Uses): | | | |
| Operating Transfers In | 11,705 | | (11,705) |
| Operating Transfers Out | (11,705) | (11,373) | 332 |
| Refund of Prior Year Expenditures | | 3,931 | 3,931 |
| Refund of Prior Year Receipts | (250) | (15) | 235 |
| Advances - In | | 25,000 | 25,000 |
| Advances - Out | | | |
| Total Other Financing Sources (Uses) | (250) | 17,543 | 17,793 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (1,015,864) | (31,958) | 983,906 |
| Fund Balances at Beginning of Year | 1,775,795 | 1,775,795 | |
| Prior Year Encumbrances Appropriated | 455,106 | 455,106 | |
| Fund Balances at End of Year | \$1,215,037 | \$2,198,943 | \$983,906 |

See Accompanying Notes to the General Purpose Financial Statements

| Special Revenue Funds | | | Capital Projects Funds | | |
|-----------------------|-----------------|----------------------------------|------------------------|--------------|----------------------------------|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$416,554 | \$440,508 | \$23,954 | \$6,595 | \$6,595 | |
| 23,334 | 23,334 | | | | |
| 900 | 523 | (377) | | | |
| 25,000 | 25,810 | 810 | | | |
| 16,666 | 1,917 | (14,749) | | | |
| <u>482,454</u> | <u>492,092</u> | <u>9,638</u> | <u>6,595</u> | <u>6,595</u> | |
| 46,378 | 46,378 | | | | |
| 13,695 | 13,695 | | | | |
| 79,559 | 45,560 | 33,999 | | | |
| 356,258 | 339,892 | 16,366 | 6,595 | 6,595 | |
| 2,000 | 1,850 | 150 | | | |
| 22,195 | 21,044 | 1,151 | | | |
| 4,000 | 1,478 | 2,522 | | | |
| 51,199 | 45,183 | 6,016 | | | |
| 800 | 500 | 300 | | | |
| <u>576,084</u> | <u>515,580</u> | <u>60,504</u> | <u>6,595</u> | <u>6,595</u> | |
| <u>(93,630)</u> | <u>(23,488)</u> | <u>70,142</u> | | | |
| | 11,373 | 11,373 | | | |
| (500) | (25) | 475 | | | |
| 25,000 | | (25,000) | | | |
| <u>(25,000)</u> | <u>(25,000)</u> | | | | |
| <u>(500)</u> | <u>(13,652)</u> | <u>(13,152)</u> | | | |
| (94,130) | (37,140) | 56,990 | | | |
| 92,591 | 92,591 | | | | |
| 17,689 | 17,689 | | | | |
| <u>\$16,150</u> | <u>\$73,140</u> | <u>\$56,990</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

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**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Miami County Educational Service Center (the "Educational Service Center") is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East and Newton Local School Districts, the Bradford, Covington, Milton Union and Tipp City Exempted Village School Districts, and Piqua and Troy City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Miami County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 133 support staff employees and 130 certified teaching personnel that provide services to the local, exempted village and city school districts.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Miami County Educational Service Center, this includes general operations and student related activities of the Educational Service Center.

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

The following entities which perform activities within the Educational Service Center boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

City of Troy - The city government of Troy is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY
(Continued)**

The Educational Service Center participates in seven organizations, four of which are defined as jointly governed organizations, and three of which are defined as insurance purchasing pools. These organizations are the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, the Miami Valley Career Technology Center, the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. These organizations are discussed in Note 14 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Miami 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 more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

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

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

1. Governmental Fund Types:

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

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

2. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental funds.

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants and charges for services.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

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

C. Budgetary Process

The budgetary process entails preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the fiscal year as circumstances warrant.

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

1. Appropriations

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Governing Board of the Educational Service Center. The Governing Board may pass supplemental fund appropriations so long as the total appropriations, by fund, do not exceed the amounts set forth in the budget approved by the State Department of Education. During the fiscal year, several supplemental appropriations were enacted. The total supplemental appropriations were significant to the original appropriations. The original appropriations were \$8,663,482, and they changed by \$511,494, resulting in final appropriations of \$9,174,976.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Governing Board of the Educational Service Center during the fiscal year for all funds.

2. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

3. Lapsing of Appropriations

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

D. 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's 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 2002, investments were limited to STAR Ohio (State Treasury Asset Reserve of Ohio), Federal Home Loan Bank Notes, a Federal Home Loan Mortgage Corporation Note, a Federal National Mortgage Association Note, a Student Loan Mortgage Note, and a First American Treasury Money Market Mutual Fund. Investments are reported at fair value which is based on quoted market prices. Fair value of the mutual fund is based on the fund's current share price.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$70,862 which includes \$17,857 assigned from other Educational Service Center funds.

For presentation on the combined balance sheet, investment 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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 fiscal year in which services are consumed.

F. Inventory

Inventories are stated at cost on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

G. Fixed Assets and Depreciation

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

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Assets in the General Fixed Assets Account Group are not depreciated.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have been paid using current available financial resources.

I. 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group.

J. Fund Balance Reserves

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

K. Interfund Transactions

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

L. Estimates

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

M. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center had a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school districts in the county are reported in an agency fund.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

At June 30, 2002, the Alternative Education Challenge and the EHA Preschool and Handicapped Grant Special Revenue Funds had deficit fund balances of \$1,638 and \$139, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

**EXCESS OF REVENUES AND OTHER FINANCING SOURCES
UNDER EXPENDITURES AND OTHER FINANCING USES
ALL GOVERNMENTAL FUND TYPES**

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> |
|--|-------------------|----------------------------|-----------------------------|
| GAAP Basis | \$330,595 | (\$21,843) | \$6,595 |
| Revenue Accruals | (103,169) | 41,290 | 0 |
| Expenditure Accruals | (211,415) | 29,049 | 0 |
| Prepaid Items | 116 | 158 | 0 |
| Increase in Fair Value of Investments | (11,151) | 0 | 0 |
| Unrecorded Cash | (125) | 0 | 0 |
| Advances | 25,000 | (25,000) | 0 |
| Outstanding Encumbrances | (61,809) | (60,794) | (6,595) |
| Budget Basis | <u>(\$31,958)</u> | <u>(\$37,140)</u> | <u>\$0</u> |

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 Governing Board 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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 obligations or security 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 eighty days from the date of purchase 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 interests 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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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 qualified trustee 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 No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was (\$132,216) and the bank balance was \$425,999. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$325,999 was uninsured and uncollateralized. Although the statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | Category 2 | Unclassified | Fair Value |
|--|-----------------------|---------------------|-----------------------|
| STAR Ohio | \$0 | \$1,532,704 | \$1,532,704 |
| Federal Home Loan Bank Notes | 405,661 | 0 | 405,661 |
| Federal Home Loan Mortgage Corporation Note | 100,457 | 0 | 100,457 |
| Federal National Mortgage Association Note | 11,000 | 0 | 11,000 |
| Student Loan Mortgage Note | 494,250 | 0 | 494,250 |
| First American Treasury Money Market Mutual Fund | 0 | 701 | 701 |
| Totals | \$1,011,368 | \$1,533,405 | \$2,544,773 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---|--------------------|
| GASB Statement No. 9 | \$2,412,557 | \$0 |
| Investments of the Cash Management Pool: | | |
| STAR Ohio | (1,532,704) | 1,532,704 |
| Federal Home Loan Bank Notes | (405,661) | 405,661 |
| Federal Home Loan Mortgage Corporation Note | (100,457) | 100,457 |
| Federal National Mortgage Association Note | (11,000) | 11,000 |
| Student Loan Mortgage Note | (494,250) | 494,250 |
| First American Treasury Money Market Mutual Fund | (701) | 701 |
| GASB Statement No. 3 | (\$132,216) | \$2,544,773 |

6. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Departments of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. The school districts also pay an additional \$28.50 per average daily membership. 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 districts 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 of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

7. RECEIVABLES

Receivables at June 30, 2002, consisted of intergovernmental (grants and charges for services). All receivables are considered collectible in full.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

7. RECEIVABLES (Continued)

A summary of intergovernmental receivables follows:

| | Amounts |
|-------------------------------------|----------------|
| General Fund: | |
| Charges for Services | \$424,214 |
| CAFS Reimbursement | 24,052 |
| Total General Fund | 448,266 |
| Special Revenue Fund: | |
| Safe and Drug-Free Grant | 536 |
| Total Intergovernmental Receivables | \$448,802 |

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2002 follows:

| Asset Category | Balance at 6/30/01 | Additions | Deletions | Balance at 6/30/02 |
|-------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Furniture and Equipment | \$454,632 | \$28,729 | \$13,601 | \$469,760 |

9. 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 2002, the Educational Service Center contracted with Hartford Insurance for property insurance. Insurance coverage provided includes the following:

| | |
|---|------------|
| Building and Contents-replacement cost (\$1,000 deductible) | \$ 291,000 |
| Automobile (hired, not owned) | 1,000,000 |

During fiscal year 2002, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 14).

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

| | |
|--|-------------|
| Education General Liability: | |
| Each Occurrence | \$1,000,000 |
| Personal and Advertising Injury Limit - Each Offense | 1,000,000 |
| Fire Damage Limit - Any One Event | 500,000 |
| Medical Expense - Any One Person/Each Accident | 10,000 |
| General Aggregate Limit | 3,000,000 |
| Products - Completed Operations Limit | 1,000,000 |
| Employee Benefits Liability: | |
| Each Offense | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| Employer's Liability and Stop Gap: | |
| Each Occurrence | 1,000,000 |
| Disease - Each Employee | 1,000,000 |
| Educational Legal Liability: | |
| Per Occurrence | 1,000,000 |
| Aggregate Limit | 2,000,000 |
| Excess Liability: | |
| Each Occurrence | 1,000,000 |
| Aggregate Limit | 1,000,000 |

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

B. Workers' Compensation

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

C. Medical Benefits

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

10. 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. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

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 contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$93,956, \$62,692 and \$65,437, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$117,438, \$382,902, and \$180,369, respectively; 55 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$52,332 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

11. POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$55,629 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$181,373.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

11. 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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, employees who have worked continuously with the Educational Service Center for at least five years receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided by United Health Care, through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 14). Dental benefits are provided through CoreSource.

13. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

| | Amount Outstanding 6/30/01 | Additions | Deductions | Amount Outstanding 6/30/02 |
|--|---|------------------|-------------------|---|
| Intergovernmental Payable | \$29,853 | \$0 | \$29,853 | \$0 |
| Compensated Absences Payable | 132,216 | 25,264 | 0 | 157,480 |
| Total General Long-Term Obligations | \$162,069 | \$25,264 | \$29,853 | \$157,480 |

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

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

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. Payments to MDECA are made from the General Fund. During fiscal year 2002, the Educational Service Center paid \$14,305 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, the Educational Service Center paid \$300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. During fiscal year 2002, payments of \$5,195 were made to the Upper Valley Joint Vocational School. To obtain financial information, write to the Upper Valley Joint Vocational School William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Miami Valley Career Technology Center – The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at Hoke Road, Clayton, Ohio 45315.

B. Insurance Purchasing Pools

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

Ohio School Plan – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc is the sales and marketing representative, which establishes agreements between OSP and member schools.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

15. CONTINGENCIES

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

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



Auditor of State Betty Montgomery

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

Miami County Educational Service Center
Miami County
510 W. Water Street, Suite 210
Troy, Ohio 45373

To the Members of the Board:

We have audited the financial statements of the Miami County Educational Service Center, Miami County, (the "ESC") as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated December 4, 2003. 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 ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the ESC in a separate letter dated December 4, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the ESC in a separate letter dated December 4, 2003.

Miami County Educational Service Center
Miami County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and Board of Education, 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

December 4, 2003



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

MIAMI COUNTY EDUCATIONAL SERVICE CENTER

MIAMI 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
JANUARY 6, 2004**