



Mary Taylor, CPA
Auditor of State

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2007	3
Statement of Net Assets – June 30, 2007	11
Statement of Activities – For the Fiscal Year Ended June 30, 2007	12
Balance Sheet – Governmental Funds – June 30, 2007	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2007	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds - For the Fiscal Year Ended June 30, 2007	15
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – For the Fiscal Year Ended June 30, 2007.....	16
Notes to the Basic Financial Statements - For the Fiscal Year Ended June 30, 2007	17
Supplemental Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non GAAP Budgetary Basis – General Fund For the Fiscal Year Ended June 30, 2007	38
Notes to Supplemental Information - For the Fiscal Year Ended June 30, 2007	39
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2006	41
Statement of Net Assets – June 30, 2006	49
Statement of Activities – For the Fiscal Year Ended June 30, 2006	50
Balance Sheet – Governmental Funds – June 30, 2006	51
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2006	52
Statement of Revenues, Expenditures, and Changes in Fund Balances –Governmental Funds - For the Fiscal Year Ended June 30, 2006	53
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – For the Fiscal Year Ended June 30, 2006.....	54

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**TABLE OF CONTENTS
(Continued)**

Notes to the Basic Financial Statements - For the Fiscal Year Ended June 30, 2006	55
Supplemental Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non GAAP Budgetary Basis – General Fund For the Fiscal Year Ended June 30, 2006	76
Notes to Supplemental Information - For the Fiscal Year Ended June 30, 2006	77
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	79



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Miami County Educational Service Center
Miami County
2000 West Stanfield Road
Troy, Ohio 45373

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami County Educational Service Center, Miami County, (the Center), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami County Educational Service Center, Miami County, as of June 30, 2007 and June 30, 2006, and the respective changes in financial position, thereof 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 January 15, 2008, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) provides additional information and is not a required part of the basic financial statements. We subjected the Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

January 15, 2008

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)**

The management's discussion and analysis of the Miami County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities decreased \$186,318 which represents a 5.97% decrease from 2006.
- General revenues accounted for \$1,270,091 in revenue or 12.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,242,728 or 87.92% of total revenues of \$10,512,819.
- The Center had \$10,699,137 in expenses related to governmental activities; \$9,242,728 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,270,091 were adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$10,397,260 in revenues and \$10,903,930 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance decreased \$506,670 from \$2,296,998 to \$1,790,328.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Center, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

The Center's statement of net assets and statement of activities can be found on pages 11-12 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental fund begins on page 8. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's only major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 13-16 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 17-37 of this report.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net assets for 2007 and 2006.

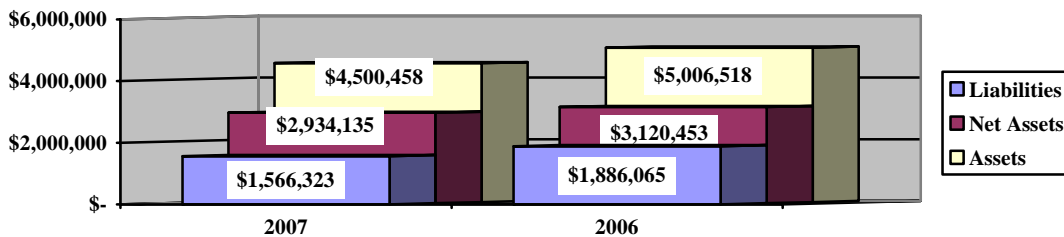
Net Assets		
	Governmental Activities 2007	Governmental Activities 2006
Assets:		
Current and other assets	\$3,011,067	\$3,923,136
Capital assets, net	1,489,391	1,083,382
Total assets	4,500,458	5,006,518
Liabilities:		
Current liabilities	1,241,399	1,564,957
Long-term liabilities	324,924	321,108
Total liabilities	1,566,323	1,886,065
Net Assets:		
Invested in capital assets, net of related debt	1,467,260	1,055,102
Restricted	511	451
Unrestricted	1,466,364	2,064,900
Total net assets	\$2,934,135	\$3,120,453

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Center's assets exceeded liabilities by \$2,934,135. Of this total, \$1,466,364 is unrestricted in use.

At year-end, capital assets represented 33.09% of total assets.

A portion of the Center's net assets, \$511, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,466,364 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

The table below shows the change in net assets for fiscal year 2007 and 2006.

Changes in Net Assets		
	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program Revenues:		
Charges for services and sales	\$9,083,032	\$8,496,417
Operating grants and contributions	159,696	197,971
General revenues:		
Grants and entitlements	1,048,302	1,235,125
Investment earnings	134,090	143,460
Other	87,699	89,330
Total revenues	<u>10,512,819</u>	<u>10,162,303</u>
Expenses:		
Program expenses:		
Instruction:		
Regular	369,533	518,892
Special	3,800,927	3,456,520
Support services:		
Pupil	2,476,843	2,280,514
Instructional staff	2,088,073	1,995,147
Board of education	24,058	15,496
Administration	1,301,239	1,264,874
Fiscal	177,500	174,368
Operations and maintenance	49,152	3,168
Pupil transportation	3,110	2,741
Central	330,871	276,407
Operations of non-instructional services	181	2,501
Extracurricular activities	853	765
Intergovernmental pass through	74,884	71,895
Interest and fiscal charges	1,913	2,205
Total expenses	<u>10,699,137</u>	<u>10,065,493</u>
Change in net assets	(186,318)	96,810
Net assets at beginning of year	<u>3,120,453</u>	<u>3,023,643</u>
Net assets at end of year	<u>\$2,934,135</u>	<u>\$3,120,453</u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

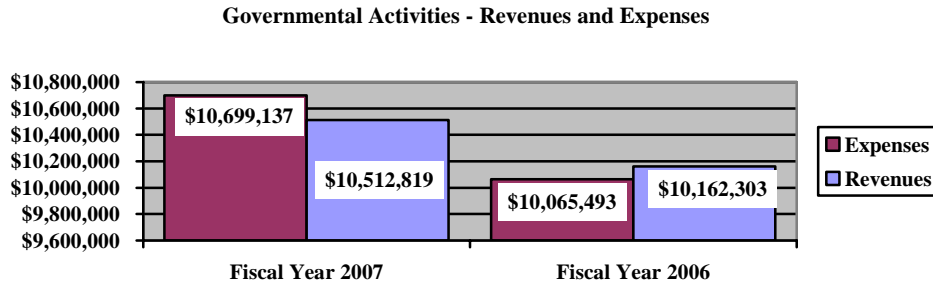
Governmental Activities

Net assets of the Center's governmental activities decreased \$186,318. Total governmental expenses of \$10,699,137 were offset by program revenues of \$9,242,728 and general revenues of \$1,270,091. Program revenues supported 86.39% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services. This revenue source represents 86.12% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled \$4,170,460 or 38.98% of total governmental expenses for fiscal 2007.

The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2007 and 2006.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities				
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program Expenses:				
Instruction:				
Regular	\$ 369,533	\$ 339,221	\$ 518,892	\$ 481,155
Special	3,800,927	201,874	3,456,520	105,470
Support Services:				
Pupil	2,476,843	137,735	2,280,514	109,855
Instructional staff	2,088,073	141,611	1,995,147	115,845
Board of education	24,058	24,058	15,496	15,496
Administration	1,301,239	49,814	1,264,874	92,730
Fiscal	177,500	177,500	174,368	174,368
Operations and maintenance	49,152	49,152	3,168	3,168
Pupil transportation	3,110	3,110	2,741	2,741
Central	330,871	330,463	276,407	275,915
Operations of non-instructional services	181	181	2,501	2,501
Extracurricular activities	853	(57)	765	193
Intergovernmental pass-through	74,884	(166)	71,895	(10,537)
Interest and fiscal charges	1,913	1,913	2,205	2,205
Total expenses	\$10,699,137	\$1,456,409	\$10,065,493	\$1,371,105

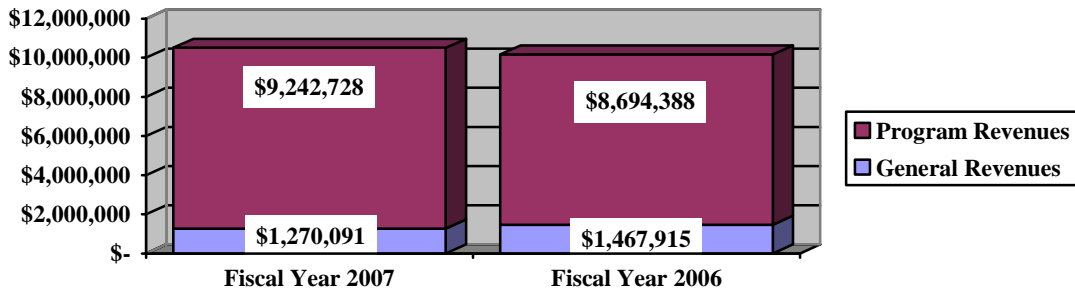
**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

The dependence upon program revenues for governmental activities is apparent, 87.03% of instruction activities are supported through program revenues. For all governmental activities, program revenue support is 86.39%. The Center's contract services, as a whole, are by far the primary support for the Center's students.

The graph below presents the Center's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$1,767,645, which is lower than last year's total of \$2,301,560. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance (Deficit) June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)	Percentage Change
General	\$1,790,328	\$2,296,998	(\$506,670)	(22.06)%
Other Governmental	(22,683)	4,562	(27,245)	(597.22)%
Total	\$1,767,645	\$2,301,560	(\$533,915)	(23.20)%

General Fund

The Center's general fund balance decreased \$506,670. The decrease in fund balance can be attributed to the construction of the Center's new building. Although overall fund balance decreased, assets of the Center increased significantly. Expenditures exceeded revenues for fiscal year 2007 by \$502,670. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

	2007 Amount	2006 Amount	Increase (Decrease)	Percentage Change
Revenues:				
Tuition	\$ 23,885	\$ 17,800	\$ 6,085	34.19%
Contract services	9,096,383	8,412,301	684,082	8.13%
Earnings on investments	134,090	143,460	(9,370)	(6.53)%
Intergovernmental	1,048,302	1,235,125	(186,823)	(15.13)%
Other revenues	94,600	93,030	1,570	1.69%
Total	10,397,260	9,901,716	495,544	5.00%
Expenditures:				
Instruction	4,084,655	3,911,174	173,481	4.44%
Support services	6,400,110	5,852,845	547,265	9.35%
Facilities acquisition and construction	407,103	897,415	(490,312)	(54.64)%
Capital outlay		33,465	(33,465)	(100.00)%
Debt service	8,062	7,390	672	9.09%
Total	\$10,899,930	\$10,702,289	\$197,641	1.85%

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the Center had \$1,489,391 invested in land, buildings and improvements and furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$119,608	\$119,608
Construction in progress		777,807
Building and improvements	1,152,285	
Furniture and equipment	217,498	185,967
Total	\$1,489,391	\$1,083,382

The overall increase in capital assets of \$406,009 is due to capital outlays of \$497,332 exceeding depreciation expense of \$85,945 and disposals of \$5,378 (net of accumulated depreciation) in the fiscal year.

See Note 7 to the basic financial statements for additional information on the Center's capital assets.

Debt Administration

At June 30, 2007, the Center had a capital lease obligation of \$22,131 outstanding.

See Note 9 to the basic financial statements for additional information on the Center's debt administration.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDTED)
(Continued)**

Current Financial Related Activities

The Center is financially in a stable financial condition through June 30, 2007. The majority of funds are obtained by selling a variety of services to the public and non-public schools in the county. The Center also receives school foundation as well as federal funds to complete the budget. Additional services are provided annually to stabilize cash flow.

The number of educational service centers in Ohio has been reduced from 88 to 60 since 1995. Centers are service oriented, providing numerous services to public and non-public schools, JVS, MR/DD's, treatment facilities and youth centers.

Centers are governed by the state constitution and face a variety of legislative mandates. The most dramatic amendment passed in 2000 which eliminated the requirement of County Commissioners to provide office space for Centers. This has been a large financial loss for all Centers.

The Center broke ground in April 2006 for a 12,000 square foot office building. Construction was completed on September 15, 2006. Currently, the Center is in its new home at 2000 West Stanfield Road in Troy, Ohio.

Centers are the link between schools and the Department of Education. They will continue to focus on school improvement, initiating the new Core Curriculum and Talented and Gifted support. The future is bright and the success of all students is imminent.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Cindy Hale, Miami County Educational Service Center, 2000 West Stanfield Rd., Troy, Ohio 45373-2987.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$2,838,097
Receivables:	
Intergovernmental	146,831
Accrued interest	11,649
Prepayments	7,849
Materials and supplies inventory	6,641
Capital assets:	
Land	119,608
Depreciable capital assets, net	1,369,783
Capital assets, net	<u>1,489,391</u>
Total assets	<u>4,500,458</u>
 Liabilities:	
Accounts payable	10,983
Accrued wages and benefits	1,002,532
Pension obligation payable	186,663
Intergovernmental payable	41,221
Long-term liabilities:	
Due within one year	28,854
Due within more than one year	296,070
Total liabilities	<u>1,566,323</u>
 Net Assets:	
Invested in capital assets, net of related debt	1,467,260
Restricted for:	
Locally funded programs	3
Student activities	508
Unrestricted	1,466,364
Total net assets	<u><u>\$2,934,135</u></u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$369,533		\$30,312	(\$339,221)
Special	3,800,927	\$3,567,092	31,961	(201,874)
Support services:				
Pupil	2,476,843	2,333,596	5,512	(137,735)
Instructional staff	2,088,073	1,931,901	14,561	(141,611)
Board of education	24,058			(24,058)
Administration	1,301,239	1,249,125	2,300	(49,814)
Fiscal	177,500			(177,500)
Operations and maintenance	49,152			(49,152)
Pupil transportation	3,110			(3,110)
Central	330,871	408		(330,463)
Operation of non-instructional services:				
Other non-instructional services	181			(181)
Extracurricular activities	853	910		57
Intergovernmental pass-through	74,884		75,050	166
Interest and fiscal charges	1,913			(1,913)
Total governmental activities	<u>\$10,699,137</u>	<u>\$9,083,032</u>	<u>\$159,696</u>	<u>(1,456,409)</u>
		General Revenues:		
		Grants and entitlements not restricted to specific programs		1,048,302
		Investment earnings		134,090
		Miscellaneous		87,699
		Total general revenues		<u>1,270,091</u>
		Change in net assets		(186,318)
		Net assets at beginning of year		<u>3,120,453</u>
		Net assets at end of year		<u>\$2,934,135</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$2,805,933	\$32,164	\$2,838,097
Receivables:			
Intergovernmental	146,831		146,831
Accrued interest	11,649		11,649
Interfund receivable	33,600		33,600
Prepayments	7,849		7,849
Materials and supplies inventory	6,641		6,641
Total assets	<u>3,012,503</u>	<u>32,164</u>	<u>3,044,667</u>
Liabilities:			
Accounts payable	9,832	1,151	10,983
Accrued wages and benefits	1,001,538	994	1,002,532
Compensated absences payable	1,948		1,948
Pension obligation payable	186,663		186,663
Intergovernmental payable	22,119	19,102	41,221
Interfund payable		33,600	33,600
Deferred revenue	75		75
Total liabilities	<u>1,222,175</u>	<u>54,847</u>	<u>1,277,022</u>
Fund Balances:			
Reserved for encumbrances	10,688	8,949	19,637
Reserved for materials and supplies inventory	6,641		6,641
Reserved for prepayments	7,849		7,849
Unreserved, undesignated (deficit), reported in:			
General fund	1,765,150		1,765,150
Special revenue funds		(31,632)	(31,632)
Total fund balances (deficit)	<u>1,790,328</u>	<u>(22,683)</u>	<u>1,767,645</u>
Total liabilities and fund balances	<u>\$3,012,503</u>	<u>\$32,164</u>	<u>\$3,044,667</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental fund balances		\$1,767,645
Amounts reported for governmental activities on the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,489,391
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract service revenue		75
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
Compensated absences	(\$300,845)	
Capital lease obligation	<u>(22,131)</u>	
Total		<u>(322,976)</u>
Net assets of governmental activities		<u><u>\$2,934,135</u></u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$23,885		\$23,885
Contract services	9,096,383		9,096,383
Earnings on investments	134,090		134,090
Classroom materials and fees	6,901		6,901
Extracurricular		\$910	910
Other local revenues	87,699	4,356	92,055
Intergovernmental - State	1,038,809	52,685	1,091,494
Intergovernmental - Federal	9,493	107,011	116,504
Total revenue	<u>10,397,260</u>	<u>164,962</u>	<u>10,562,222</u>
Expenditures:			
Current:			
Instruction:			
Regular	343,650	30,171	373,821
Special	3,741,005	32,792	3,773,797
Support services:			
Pupil	2,467,480	5,456	2,472,936
Instructional staff	2,036,344	49,059	2,085,403
Board of education	24,058		24,058
Administration	1,312,836	2,300	1,315,136
Fiscal	178,440		178,440
Operations and maintenance	48,192		48,192
Pupil transportation	3,110		3,110
Central	329,650	692	330,342
Extracurricular activities		853	853
Facilities acquisition and construction	407,103		407,103
Intergovernmental pass through		74,884	74,884
Debt service:			
Principal retirement	6,149		6,149
Interest and fiscal charges	1,913		1,913
Total expenditures	<u>10,899,930</u>	<u>196,207</u>	<u>11,096,137</u>
Excess of revenues over (under) expenditures	<u>(502,670)</u>	<u>(31,245)</u>	<u>(533,915)</u>
Other financing sources (uses):			
Transfers in		4,000	4,000
Transfers (out)	(4,000)		(4,000)
Total other financing sources (uses)	<u>(4,000)</u>	<u>4,000</u>	
Net change in fund balances	(506,670)	(27,245)	(533,915)
Fund balances at beginning of year	<u>2,296,998</u>	<u>4,562</u>	<u>2,301,560</u>
Fund balances (deficit) at end of year	<u>\$1,790,328</u>	<u>(\$22,683)</u>	<u>\$1,767,645</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds (\$533,915)

Amounts reported for governmental activities on the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$497,332	
Current year depreciation	<u>(85,945)</u>	
Total		411,387

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (5,378)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 6,149

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (49,403)

Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (15,158)

Change in net assets of governmental activities (\$186,318)

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Miami County Educational Service Center (the "Center") is located in Troy, Ohio, the county seat. The 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 Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The 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 Center has 148 support staff employees and 116 certified teaching personnel that provide services to the local, exempted village and city school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, contract services and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship to the Center.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association

The 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 Drake 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, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Vandalia, Ohio 45377.

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 possess 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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 possess 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 Gossett, 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 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 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 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

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

General Fund

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

Other governmental funds of the Center are used to account for grants and other resources whose use is restricted to a particular purpose.

2. Proprietary Funds

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no proprietary funds.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no agency funds.

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

2. Fund Financial Statements

Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 Center, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Unearned Revenue and Deferred Revenue

Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

3. Expenses/Expenditures

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

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

E. Budgetary Process

Although not legally required, the Center adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplemental information to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to federal agency securities and a U.S. Government money market account. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$134,090, which includes \$839 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

General capital assets are those assets related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$500. 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. The Center does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	4 - 50 years
Furniture and equipment	4 - 10 years

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the Center consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of current service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pass-Through Grants

The 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 Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of accumulated depreciation of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. There are no net assets restricted by enabling legislation at June 30, 2007.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. 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 on the fund financial statements.

P. Estimates

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

Q. Interfund Activity

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

3. ACCOUNTABILITY & COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
Non-major Funds	
EMIS	\$2
Entry Year Programs	27,851
Alternative Education Challenge Grant	22
Title I	1,008
EHA Preschool Grants for the handicapped	23

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 items (1) and (2) above 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 the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of 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.

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the Center had \$100 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all Center deposits was \$1,894,089. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,968,200 of the Center's bank balance of \$2,068,200 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

C. Investments

As of June 30, 2007, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
U.S. Government money market	\$24,892	\$24,892		
FNMA discount note	195,460	195,460		
FHLB	623,618	99,969	\$199,594	\$324,055
FNMA	99,938	99,938		
	<u>\$943,908</u>	<u>\$420,259</u>	<u>\$199,594</u>	<u>\$324,055</u>

The weighted average maturity of investments is .69 years.

1. Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less.

2. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Center's name. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

3. Credit Risk

The Center's investments, except for the U.S. Government Money Market, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned a AAAM money market rating to the U.S. Government Money Market.

- 4. Concentration of Credit Risk:** The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government money market	\$24,892	2.64
FNMA discount note	195,460	20.71
FHLB	623,618	66.06
FNMA	99,938	10.59
	<u>\$943,908</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

Cash and investments per footnote

Carrying amount of deposits	\$1,894,089
Investments	943,908
Cash on hand	100
Total	<u>\$2,838,097</u>

Cash and investments per statement of net assets

Governmental activities	<u>\$2,838,097</u>
-------------------------	--------------------

5. INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major Governmental Funds	<u>\$33,600</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Non-major Governmental Funds from:	
General Fund	\$4,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

6. RECEIVABLES

Receivables at June 30, 2007 consisted of accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Contract Services	\$146,068
Other Local	<u>763</u>
Total Intergovernmental	<u><u>\$146,831</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$119,608			\$119,608
Construction-in-progress	<u>777,807</u>		<u>(\$777,807)</u>	
Total capital assets, not being depreciated	<u>897,415</u>		<u>(777,807)</u>	<u>119,608</u>
Capital assets, being depreciated:				
Buildings and improvements		\$1,171,991		1,171,991
Furniture and equipment	<u>554,281</u>	<u>103,148</u>	<u>(16,384)</u>	<u>641,045</u>
Total capital assets, being depreciated	<u>554,281</u>	<u>1,275,139</u>	<u>(16,384)</u>	<u>1,813,036</u>
Less: accumulated depreciation:				
Buildings and improvements		(19,706)		(19,706)
Furniture and equipment	<u>(368,314)</u>	<u>(66,239)</u>	<u>11,006</u>	<u>(423,547)</u>
Total accumulated depreciation	<u>(368,314)</u>	<u>(85,945)</u>	<u>11,006</u>	<u>(443,253)</u>
Governmental activities capital assets, net	<u>\$1,083,382</u>	<u>\$1,189,194</u>	<u>(\$783,185)</u>	<u>\$1,489,391</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,773
Special	13,194
Support Services:	
Pupil	4,991
Instructional staff	2,322
Administration	62,519
Fiscal	663
Central	302
Operation of non-instruction	<u>181</u>
Total depreciation expense	<u>\$85,945</u>

8. CAPITAL LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

The total principal amount of the leases at June 30, 2007 is \$22,131. Capital assets consisting of copier equipment have been capitalized in the amount of \$33,465. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$10,039, leaving a current book value of \$23,426. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$6,149 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

Fiscal Year Ending June 30,	Amount
2008	\$8,062
2009	8,062
2010	8,061
2011	672
Total minimum lease payments	24,857
Less amount representing interest	(2,726)
Total	\$22,131

9. LONG-TERM OBLIGATIONS

During fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding July 1, 2006	Additions	Reductions	Balance Outstanding June 30, 2007	Amounts Due in One Year
Governmental Activities:					
Capital lease obligation	\$28,280		(\$6,149)	\$22,131	\$6,627
Compensated absences	292,828	\$35,568	(25,603)	302,793	22,227
Total long-term obligations, governmental activities	\$321,108	\$35,568	(\$31,752)	\$324,924	\$28,854

Compensated absences will ultimately be paid from the fund from which the employee is paid, which for the Center is primarily the General fund.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. 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 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.

11. RISK MANAGEMENT

A. Comprehensive

During fiscal year 2007, the Center was a member in the Ohio School 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 Center pays this annual premium to the Plan (see Note 2A.).

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

	Coverage
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	5,000/25,000
General Aggregate Limit	6,000,000
Products – Completed Operations Limit	4,000,000
Educational Legal Liability:	
Errors or Omissions	4,000,000
Automobile Liability:	
Hired/Non-owned	4,000,000
Employee Benefits Liability – per occurrence	4,000,000

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. Employee Health Insurance

The Center provides life insurance and accidental death and dismemberment insurance to employees through Educational Employee Life Insurance Trust. 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 Delta Dental. Vision benefits are provided by Vision Service Plan.

The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the 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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. RISK MANAGEMENT (Continued)

C. Workers' Compensation

For fiscal year 2007, the 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 Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Center is calculated as one experience and a common premium rate is applied to all Educational Service Centers in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall 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 Centers that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

12. PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$296,752, \$266,110, and \$239,995, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005.

B. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. PENSION PLANS (Continued)

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$619,127, \$571,128, and \$547,666, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005. Contributions to the DC and Combined Plans for fiscal 2007 were \$12,453 made by the Center and \$24,786 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2% of wages paid.

13. POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 funded on a pay-as-you-go basis.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$47,625 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 the balance in the Health Care Stabilization Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265.558 million and STRS Ohio had 122,934 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the Center paid \$144,485 to fund health care benefits, including the surcharge.

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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

14. CONTINGENCIES

A. Grants

The 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. CONTINGENCIES (Continued)

B. Litigation

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

15. STATE FUNDING

The 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 Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the state's foundation program. Simultaneously, \$37 times the sum of the ADM is paid by the State Board of Education from state funds to the 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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$30,000	\$30,000	\$23,885	(\$6,115)
Contract services	8,095,772	8,095,772	9,225,187	1,129,415
Earnings on investments	75,000	75,000	127,443	52,443
Classroom materials and fees	8,000	8,000	6,901	(1,099)
Other local revenues	100,000	100,000	89,932	(10,068)
Intergovernmental - State	1,283,646	1,283,646	1,038,809	(244,837)
Intergovernmental - Federal	50,000	50,000	9,493	(40,507)
Total revenue	<u>9,642,418</u>	<u>9,642,418</u>	<u>10,521,650</u>	<u>879,232</u>
Expenditures:				
Current:				
Instruction:				
Regular	361,713	361,889	351,118	10,771
Special	3,915,020	3,916,921	3,770,811	146,110
Support services:				
Pupil	2,592,040	2,593,298	2,465,485	127,813
Instructional staff	2,124,590	2,125,621	2,069,652	55,969
Board of education	31,060	31,075	25,203	5,872
Administration	1,523,778	1,524,518	1,334,792	189,726
Fiscal	196,967	197,063	181,934	15,129
Operations and maintenance	74,506	74,542	46,293	28,249
Pupil transportation	2,499	2,500	1,874	626
Central	351,253	351,423	332,736	18,687
Facilities acquisition and construction	793,725	794,110	667,081	127,029
Total expenditures	<u>11,967,151</u>	<u>11,972,960</u>	<u>11,246,979</u>	<u>725,981</u>
Excess of revenues over (under) expenditures	<u>(2,324,733)</u>	<u>(2,330,542)</u>	<u>(725,329)</u>	<u>1,605,213</u>
Other financing sources (uses):				
Refund of prior year expenditure			23,650	23,650
Transfers (out)	(49,976)	(50,000)	(4,000)	46,000
Advances (out)			(33,600)	(33,600)
Sale of capital assets			595	595
Total other financing sources (uses)	<u>(49,976)</u>	<u>(50,000)</u>	<u>(13,355)</u>	<u>36,645</u>
Net change in fund balance	(2,374,709)	(2,380,542)	(738,684)	1,641,858
Fund balance at beginning of year	2,800,283	2,800,283	2,800,283	
Prior year encumbrances appropriated	726,532	726,532	726,532	
Fund balance at end of year	<u>\$1,152,106</u>	<u>\$1,146,273</u>	<u>\$2,788,131</u>	<u>\$1,641,858</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

2. BUDGETARY BASIS OF ACCOUNTING

While the ESC 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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are 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 (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advance Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	<u>General</u>
Budget basis	(\$738,684)
Net adjustment for revenue accruals	(124,390)
Net adjustment for expenditure accruals	332,276
Net adjustment for other sources/(uses)	9,355
Adjustment for encumbrances	14,773
GAAP basis	<u><u>(\$506,670)</u></u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The management's discussion and analysis of the Miami County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$96,810 which represents a 3.20% increase from 2005.
- General revenues accounted for \$1,467,915 in revenue or 14.44% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$8,694,388 or 85.56% of total revenues of \$10,162,303.
- The Center had \$10,065,493 in expenses related to governmental activities; \$8,694,388 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,467,915 were adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$9,935,181 in revenues and other financing sources and \$10,712,129 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$776,948 from \$3,073,946 to \$2,296,998.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Center, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

The Center's statement of net assets and statement of activities can be found on pages 49-50 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental fund begins on page 8. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's only major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 51-54 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 55-75 of this report.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net assets for 2006 and 2005.

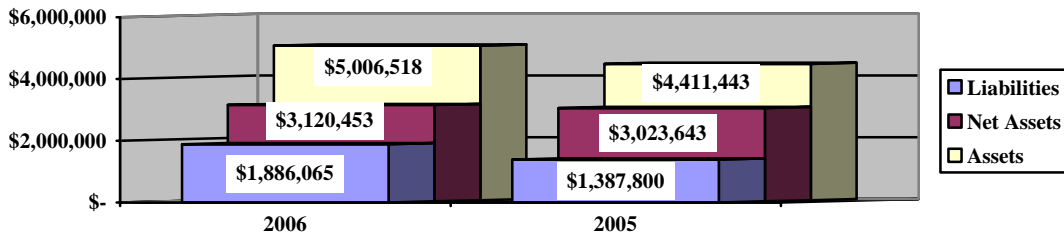
	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current and other assets	\$3,923,136	\$4,210,551
Capital assets, net	1,083,382	200,892
Total assets	5,006,518	4,411,443
Liabilities		
Current liabilities	1,564,957	1,126,911
Long-term liabilities	321,108	260,889
Total liabilities	1,886,065	1,387,800
Net Assets		
Invested in capital assets, net of related debt	1,055,102	200,892
Restricted	451	11,476
Unrestricted	2,064,900	2,811,275
Total net assets	\$3,120,453	\$3,023,643

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's assets exceeded liabilities by \$3,120,453. Of this total, \$2,064,900 is unrestricted in use.

At year-end, capital assets represented 21.64% of total assets.

A portion of the Center's net assets, \$451, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,064,900 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets		
	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program Revenues:		
Charges for services and sales	\$8,496,417	\$7,594,643
Operating grants and contributions	197,971	247,003
General Revenues:		
Grants and entitlements	1,235,125	1,601,280
Investment earnings	143,460	84,593
Other	89,330	76,633
Total Revenues	<u>10,162,303</u>	<u>9,604,152</u>
Expenses		
Program Expenses:		
Instruction:		
Regular	518,891	471,110
Special	3,456,520	3,238,090
Support Services:		
Pupil	2,280,514	2,140,110
Instructional staff	1,995,147	1,887,850
Board of education	15,496	14,415
Administration	1,264,874	1,152,462
Fiscal	174,368	181,841
Operations and maintenance	3,168	1,957
Pupil transportation	2,741	1,887
Central	276,407	197,588
Operations of non-instructional services	2,501	28,348
Extracurricular activities	765	479
Intergovernmental pass through	71,895	
Interest and fiscal charges	2,205	
Total expenses	<u>10,065,493</u>	<u>9,316,137</u>
Change in Net Assets	96,810	288,015
Net Assets at beginning of year	<u>3,023,643</u>	<u>2,735,628</u>
Net Assets at end of year	<u><u>\$3,120,453</u></u>	<u><u>\$3,023,643</u></u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

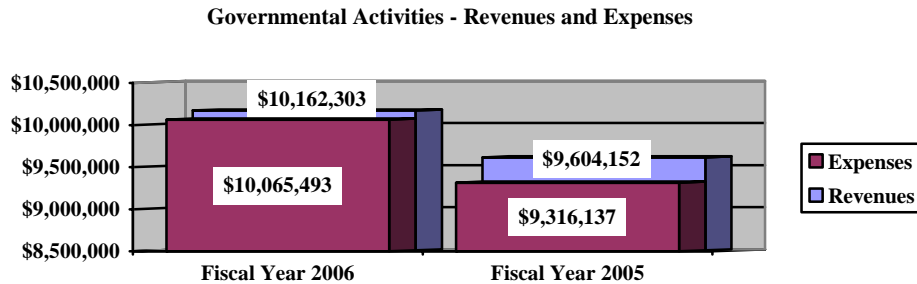
Governmental Activities

Net assets of the Center's governmental activities increased \$96,810. Total governmental expenses of \$10,065,493 were offset by program revenues of \$8,694,388 and general revenues of \$1,467,915. Program revenues supported 86.38% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services. This revenue source represents 83.61% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled \$3,975,412 or 39.50% of total governmental expenses for fiscal 2006.

The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities				
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program Expenses				
Instruction:				
Regular	\$ 518,892	\$ 481,155	\$ 471,110	\$ 373,914
Special	3,456,520	105,470	3,238,090	250,151
Support Services:				
Pupil	2,280,514	109,855	2,140,110	191,059
Instructional staff	1,995,147	115,845	1,887,850	156,395
Board of education	15,496	15,496	14,415	14,415
Administration	1,264,874	92,730	1,152,462	110,949
Fiscal	174,368	174,368	181,841	173,637
Operations and maintenance	3,168	3,168	1,957	1,957
Pupil transportation	2,741	2,741	1,887	1,887
Central	276,407	275,915	197,588	197,142
Operations of non-instructional services	2,501	2,501	28,348	3,348
Extracurricular activities	765	193	479	(363)
Intergovernmental pass-through	71,895	(10,537)		
Interest and fiscal charges	2,205	2,205		
Total expenses	\$10,065,493	\$1,371,105	\$9,316,137	\$1,474,491

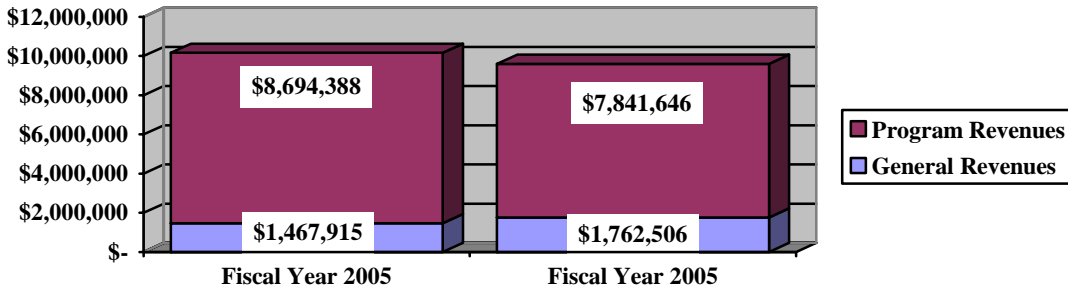
**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The dependence upon program revenues for governmental activities is apparent, 85.24% of instruction activities are supported through program revenues. For all governmental activities, program revenue support is 86.38%. The Center's contract services, as a whole, are by far the primary support for the Center's students.

The graph below presents the Center's governmental activities revenue for fiscal year 2006 and 2005.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$2,301,560, which is lower than last year's total of \$3,083,640. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Decrease	Percentage Change
General	\$2,296,998	\$3,073,946	(\$776,948)	(25.28)%
Other Governmental	4,562	9,694	(5,132)	(52.94)%
Total	\$2,301,560	\$3,083,640	(\$782,080)	(25.36)%

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

General Fund

The Center's general fund balance decreased \$776,948. The decrease in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2006 by \$800,573. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Contract services	\$8,412,301	\$7,651,742	\$760,559	9.94%
Earnings on investments	143,460	84,593	58,867	69.59%
Intergovernmental	1,235,125	1,601,280	(366,155)	(22.87)%
Other revenues	110,830	105,073	5,757	5.48%
Total	<u>9,901,716</u>	<u>9,442,688</u>	<u>459,028</u>	4.86%
Expenditures				
Instruction	3,911,174	3,615,542	295,632	8.18%
Support services	5,852,845	5,310,730	542,115	10.21%
Non-instructional services		4	(4)	(100.00)%
Facilities acquisition and construction	897,415		897,415	100.00%
Capital outlay	33,465		33,645	100.00%
Debt service	7,390		7,390	100.00%
Total	<u>\$10,702,289</u>	<u>\$8,926,276</u>	<u>\$1,776,013</u>	19.90%

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the Center had \$1,083,382 invested in land, construction in progress and furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Land	\$ 119,608	
Construction in progress	777,807	
Furniture and equipment	185,967	\$200,892
Total	<u>\$1,083,382</u>	<u>\$200,892</u>

The overall increase in capital assets of \$882,490 is due to capital outlays of \$958,360 exceeding depreciation expense of \$68,086 and disposals of \$7,784 (net of accumulated depreciation) in the fiscal year.

See Note 7 to the basic financial statements for additional information on the Center's capital assets.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Debt Administration

At June 30, 2006, the Center had a capital lease obligation of \$28,280 outstanding.

See Note 9 to the basic financial statements for additional information on the Center's debt administration.

Current Financial Related Activities

The Center is financially in a stable financial condition through June 30, 2006. The majority of funds are obtained by selling a variety of services to the public and non-public schools in the county. The Center also receives school foundation as well as federal funds to complete the budget. Additional new services are added annually which has a direct positive impact on the budget.

The number of educational service centers in Ohio has been reduced from 88 to 60. Centers are service oriented, providing numerous services to public and non-public schools, MR/DD's, treatment facilities and youth centers.

The Ohio Legislation continues to pass new bills that affect the operation of the Centers. The most dramatic was in 2000 when the County Commissioners no longer were required to provide Center office space. This was a large financial loss for all Centers. The Legislators did not provide funds to offset this loss.

The Center broke ground in April 2006 for a 12,000 square foot office building. Construction was completed on September 15, 2006. Currently, the Center is in its new home at 2000 West Stanfield Road in Troy, Ohio.

Centers will continue to operate and provide services to schools as long as the Legislatures allow such. The uncertainty of school funding, addition of charter/community schools, and the reduction of a 1% sales tax will all have a direct negative impact on schools and Centers.

In spite of the negative financial picture, Center's continue to provide needed services to all schools. The future is bright and the success of all students is imminent.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Cindy Hale, Miami County Educational Service Center, 2000 West Stanfield Rd., Troy, Ohio 45373-2987.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$3,541,617
Cash with escrow agent	43,516
Receivables:	
Intergovernmental	331,525
Accrued interest	904
Prepayments	980
Materials and supplies inventory	4,594
Capital assets:	
Land	119,608
Construction in progress	777,807
Depreciable capital assets, net	185,967
Capital assets, net	<u>1,083,382</u>
Total assets	<u>5,006,518</u>
Liabilities:	
Accounts payable	13,074
Contracts payable	257,978
Retainage payable	43,516
Accrued wages and benefits	989,682
Pension obligation payable	171,921
Intergovernmental payable	88,786
Long-term liabilities:	
Due within one year	31,752
Due within more than one year	289,356
Total liabilities	<u>1,886,065</u>
Net Assets:	
Invested in capital assets, net of related debt	1,055,102
Restricted for:	
Student activities	451
Unrestricted	2,064,900
Total net assets	<u><u>\$3,120,453</u></u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$518,892		\$37,737	(\$481,155)
Special	3,456,520	\$3,321,593	29,457	(105,470)
Support services:				
Pupil	2,280,514	2,165,369	5,290	(109,855)
Instructional staff	1,995,147	1,838,994	40,308	(115,845)
Board of education	15,496			(15,496)
Administration	1,264,874	1,169,419	2,725	(92,730)
Fiscal	174,368			(174,368)
Operations and maintenance	3,168			(3,168)
Pupil transportation	2,741			(2,741)
Central	276,407	492		(275,915)
Operation of non-instructional services:				
Other non-instructional services	2,501			(2,501)
Extracurricular activities	765	550	22	(193)
Intergovernmental pass-through	71,895		82,432	10,537
Interest and fiscal charges	2,205			(2,205)
Total governmental activities	\$10,065,493	\$8,496,417	\$197,971	(1,371,105)

General Revenues:

Grants and entitlements not restricted to specific programs	1,235,125
Investment earnings	143,460
Miscellaneous	89,330
Total general revenues	1,467,915

Change in net assets 96,810

Net assets at beginning of year 3,023,643

Net assets at end of year **\$3,120,453**

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$3,533,942	\$7,675	\$3,541,617
Cash with escrow agent	43,516		43,516
Receivables:			
Intergovernmental	327,866	3,659	331,525
Accrued interest	904		904
Prepayments	980		980
Materials and supplies inventory	4,594		4,594
Total assets	<u>3,911,802</u>	<u>11,334</u>	<u>3,923,136</u>
Liabilities:			
Accounts payable	12,934	140	13,074
Contracts payable	257,978		257,978
Retainage payable	43,516		43,516
Accrued wages and benefits	984,694	4,988	989,682
Compensated absences payable	7,141		7,141
Pension obligation payable	171,223	698	171,921
Intergovernmental payable	87,840	946	88,786
Deferred revenue	49,478		49,478
Total liabilities	<u>1,614,804</u>	<u>6,772</u>	<u>1,621,576</u>
Fund Balances:			
Reserved for encumbrances	444,155	1,099	445,254
Reserved for materials and supplies inventory	4,594		4,594
Reserved for prepayments	980		980
Unreserved, undesignated, reported in:			
General fund	1,847,269		1,847,269
Special revenue funds		3,463	3,463
Total fund balances	<u>2,296,998</u>	<u>4,562</u>	<u>2,301,560</u>
Total liabilities and fund balances	<u>\$3,911,802</u>	<u>\$11,334</u>	<u>\$3,923,136</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances		\$2,301,560
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,083,382
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract service revenue		49,478
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
Compensated absences	(\$285,687)	
Capital lease obligation	<u>(28,280)</u>	
Total		<u>(313,967)</u>
Net assets of governmental activities		<u><u>\$3,120,453</u></u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$17,800		\$17,800
Contract services	8,412,301		8,412,301
Earnings on investments	143,460		143,460
Classroom materials and fees	3,700		3,700
Extracurricular		550	550
Other local revenues	89,330	12,588	101,918
Intergovernmental - State	991,393	86,082	1,077,475
Intergovernmental - Federal	243,732	111,889	355,621
Total revenue	<u>9,901,716</u>	<u>211,109</u>	<u>10,112,825</u>
Expenditures:			
Current:			
Instruction:			
Regular	467,338	40,766	508,104
Special	3,443,836	29,634	3,473,470
Support services:			
Pupil	2,259,523	5,233	2,264,756
Instructional staff	1,906,188	63,965	1,970,153
Board of education	15,496		15,496
Administration	1,220,363	8,575	1,228,938
Fiscal	173,285		173,285
Operations and maintenance	3,168		3,168
Pupil transportation	2,741		2,741
Central	272,081	956	273,037
Other non-instructional services		4,292	4,292
Extracurricular activities		765	765
Capital outlay	33,465		33,465
Facilities acquisition and construction	897,415		897,415
Intergovernmental pass through		71,895	71,895
Debt service:			
Principal retirement	5,185		5,185
Interest and fiscal charges	2,205		2,205
Total expenditures	<u>10,702,289</u>	<u>226,081</u>	<u>10,928,370</u>
Excess of revenues under expenditures	<u>(800,573)</u>	<u>(14,972)</u>	<u>(815,545)</u>
Other financing sources (uses):			
Capital lease transaction	33,465		33,465
Transfers in		9,840	9,840
Transfers (out)	(9,840)		(9,840)
Total other financing sources (uses)	<u>23,625</u>	<u>9,840</u>	<u>33,465</u>
Net change in fund balances	(776,948)	(5,132)	(782,080)
Fund balances at beginning of year	<u>3,073,946</u>	<u>9,694</u>	<u>3,083,640</u>
Fund balances at end of year	<u>\$2,296,998</u>	<u>\$4,562</u>	<u>\$2,301,560</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds (\$782,080)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$958,360	
Current year depreciation	(68,086)	

Total		890,274
-------	--	---------

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (7,784)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 5,185

Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (33,465)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 49,478

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (24,798)

Change in net assets of governmental activities \$96,810

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Miami County Educational Service Center (the "Center") is located in Troy, Ohio, the county seat. The 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 Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The 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 Center has 133 support staff employees and 108 certified teaching personnel that provide services to the local, exempted village and city school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, contract services and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organizations resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship to the Center.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association

The 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 Drake 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, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Vandalia, Ohio 45377.

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 possess 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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 possess 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 Gossett, 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 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 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 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

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

General Fund

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

Other governmental funds of the Center are used to account for grants and other resources whose use is restricted to a particular purpose.

2. Proprietary Funds

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no proprietary funds.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no agency funds.

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

2. Fund Financial Statements

Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

- 1. Revenues - Exchange and Non-exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 Center, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

3. Expenses/Expenditures

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

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

E. Budgetary Process

Although not legally required, the Center adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplemental information to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to federal agency securities and a U.S. Government money market account. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$143,460, which includes \$1,021 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

General capital assets are those assets related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$500. 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. The Center does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Furniture and equipment	4 - 10 years

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the Center consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of current service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pass-Through Grants

The 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 Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund (a non-major governmental fund).

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of accumulated depreciation of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. There are no net assets restricted by enabling legislation at June 30, 2006.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. 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 on the fund financial statements.

P. Estimates

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

Q. Interfund Activity

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

3. ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the Center has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the Center as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

Non-major Funds	Deficit
EMIS	\$46
Alternative Education Challenge Grant	229
Title I	177
EHA Preschool Grants for the handicapped	189

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of 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 to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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) 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 Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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, corporate debt interests rated in either of the two highest 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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the Center had \$100 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Escrow Agent

At fiscal year-end, \$43,516 was on deposit in escrow accounts for retainage relating to construction contracts and is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheets as "Equity in Pooled Cash and Cash Equivalents."

C. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all Center deposits was \$2,246,888. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,230,567 of the Center's bank balance of \$2,330,567 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

D. Investments

As of June 30, 2006, the Center had the following investments and maturities:

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
U.S. Government Money Market	\$31,762	\$31,762		
FHLB Discount Note	189,373	189,373		
FNMA Discount Note	195,600	195,600		
FHLB	99,625			\$99,625
FHLMC Discount Note	778,269	182,725	\$595,544	
	<u>\$1,294,629</u>	<u>\$599,460</u>	<u>\$595,544</u>	<u>\$99,625</u>

The weighted average maturity of investments is .47 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Center's name. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk: The Center's investments, except for the U.S. Government Money Market, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned a AAAm money market rating to the U.S. Government Money Market.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government Money Market	\$31,762	2.45
FHLB Discount Note	189,373	14.63
FNMA Discount Note	195,600	15.11
FHLB	99,625	7.70
FHLMC Discount Note	778,269	60.11
	<u>\$1,294,629</u>	<u>100.00</u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$2,246,888
Cash with escrow agents	43,516
Investments	1,294,629
Cash on hand	100
Total	<u>\$3,585,133</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	<u>\$3,585,133</u>

5. INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Non-major Governmental funds from:	<u>Amount</u>
General	\$9,840

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

6. RECEIVABLES

Receivables at June 30, 2006 consisted of accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Contract Services	\$327,866
Pre-School Grant	3,659
Total Intergovernmental Receivables	<u>\$331,525</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land		\$119,608		\$119,608
Construction-in-progress		777,807		777,807
Total capital assets, not being depreciated		<u>897,415</u>		<u>897,415</u>
Capital assets, being depreciated:				
Furniture and equipment	\$548,598	60,945	(\$55,262)	554,281
Total capital assets, being depreciated	<u>548,598</u>	<u>60,945</u>	<u>(55,262)</u>	<u>554,281</u>
Less: accumulated depreciation:				
Furniture and equipment	(347,706)	(68,086)	47,478	(368,314)
Total accumulated depreciation	<u>(347,706)</u>	<u>(68,086)</u>	<u>47,478</u>	<u>(368,324)</u>
Governmental activities capital assets, net	<u>\$200,892</u>	<u>\$890,274</u>	<u>(\$ 7,784)</u>	<u>\$1,083,382</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 4,727
Special		15,134
Support Services:		
Pupil		6,577
Instructional staff		3,030
Administration		36,623
Fiscal		1,289
Central		410
Operation of non-instruction		296
Total depreciation expense		<u>\$68,086</u>

8. CAPITAL LEASES - LESSEE DISCLOSURE

In the current year, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

The total principal amount of the leases at June 30, 2006, is \$28,280. Capital assets consisting of copier equipment have been capitalized in the amount of \$33,465. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$3,347, leaving a current book value of \$30,118. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$5,185 paid by the general fund.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

Fiscal Year Ending June 30,	Amount
2007	\$ 8,062
2008	8,062
2009	8,062
2010	8,061
2011	672
Total minimum lease payments	32,919
Less amount representing interest	(4,639)
Total	\$28,280

9. LONG-TERM OBLIGATIONS

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding July 1, 2005	Additions	Reductions	Balance Outstanding June 30, 2006	Amounts Due in One Year
Governmental Activities:					
Capital lease obligation		\$33,465	(\$5,185)	\$ 28,280	\$ 6,149
Compensated absences	\$260,889	43,679	(11,740)	292,828	25,603
 Total long-term obligations, Governmental activities	\$260,889	\$77,144	(\$16,925)	\$321,108	\$31,752

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

10. 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 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.

11. RISK MANAGEMENT

A. Comprehensive

During fiscal year 2006, the Center was a member 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 Center pays this annual premium to the Plan (see Note 2A.).

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. RISK MANAGEMENT (Continued)

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

	Coverage
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	5,000,000/25,000
General Aggregate Limit	6,000,000
Products – Completed Operations Limit	4,000,000
Educational Legal Liability:	
Errors or Omissions	4,000,000
Automobile Liability:	
Hired/Non-owned	4,000,000
Employee Benefits Liability – per occurrence	4,000,000

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. Employee Health Insurance

The Center provides life insurance and accidental death and dismemberment insurance to employees through Educational Employee Life Insurance Trust. 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. Vision benefits are provided by Vision Service Plan.

The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the 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 2006, the 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 Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Center is calculated as one experience and a common premium rate is applied to all Educational Service Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall 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 Centers than can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$266,110, \$239,995, and \$195,278, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004.

B. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$571,138, \$547,666, and \$531,164, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal 2006 were \$15,809 made by the Center and \$26,375 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board have elected Social Security. The Center's liability is 6.2% of wages paid.

13. POSTEMPLOYMENT BENEFITS

The 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$43,934 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, Center paid \$119,739 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

14. CONTINGENCIES

A. Grants

The 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. STATE FUNDING

The 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 Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the 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 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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
From local sources:				
Tuition	\$30,000	\$30,000	\$17,760	(\$12,240)
Contract services	7,532,690	7,532,690	8,876,843	1,344,153
Earnings on investments	65,000	65,000	139,298	74,298
Classroom materials and fees	8,000	8,000	4,950	(3,050)
Other local revenues	140,000	140,000	85,739	(54,261)
Intergovernmental - State	1,328,470	1,328,470	991,393	(337,077)
Intergovernmental - Federal	225,000	225,000	243,732	18,732
Total revenue	<u>9,329,160</u>	<u>9,329,160</u>	<u>10,359,715</u>	<u>1,030,555</u>
Expenditures:				
Current:				
Instruction:				
Regular	487,431	491,687	478,078	13,609
Special	3,451,363	3,470,382	3,400,162	70,220
Support services:				
Pupil	2,272,888	2,308,202	2,237,060	71,142
Instructional staff	1,874,010	1,878,567	1,829,411	49,156
Board of education	26,450	26,450	15,485	10,965
Administration	1,349,639	1,332,678	1,232,796	99,882
Fiscal	190,275	193,455	174,428	19,027
Operations and maintenance	800	3,272	3,168	104
Pupil transportation	2,968	2,968	1,854	1,114
Central	254,640	263,329	261,281	2,048
Facilities acquisition and construction	1,420,000	1,465,000	1,329,547	135,453
Total expenditures	<u>11,330,464</u>	<u>11,435,990</u>	<u>10,963,270</u>	<u>472,720</u>
Excess of revenues over (under) expenditures	<u>(2,001,304)</u>	<u>(2,106,830)</u>	<u>(603,555)</u>	<u>1,503,275</u>
Other financing sources (uses):				
Refund of prior year expenditure			14,289	14,289
Transfers (out)	(150,000)	(150,000)	(9,840)	140,160
Advances in			10,105	10,105
Total other financing sources (uses)	<u>(150,000)</u>	<u>(150,000)</u>	<u>14,554</u>	<u>164,554</u>
Net change in fund balance	(2,151,304)	(2,256,830)	(589,001)	1,667,829
Fund balance at beginning of year	3,357,486	3,357,486	3,357,486	
Prior year encumbrances appropriated	31,798	31,798	31,798	
Fund balance at end of year	<u>\$1,237,980</u>	<u>\$1,132,454</u>	<u>\$2,800,283</u>	<u>\$1,667,829</u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

2. BUDGETARY BASIS OF ACCOUNTING

While the ESC 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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

5. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
6. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
7. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
8. Advances In and Advance Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

2. BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General</u>
Budget basis	(\$589,001)
Net adjustment for revenue accruals	(457,999)
Net adjustment for expenditure accruals	(465,551)
Net adjustment for other sources/(uses)	9,071
Adjustment for encumbrances	<u>726,532</u>
GAAP basis	<u><u>(\$776,948)</u></u>



Mary Taylor, CPA

Auditor of State

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

Miami County Educational Service Center
Miami County
2000 West Stanfield Road
Troy, Ohio 45373

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami County Educational Service Center, Miami County, (the Center), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We noted certain matters that we reported to the Center's management in a separate letter dated January 15, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management and the Board. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

January 15, 2008



Mary Taylor, CPA
Auditor of State

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 31, 2008**